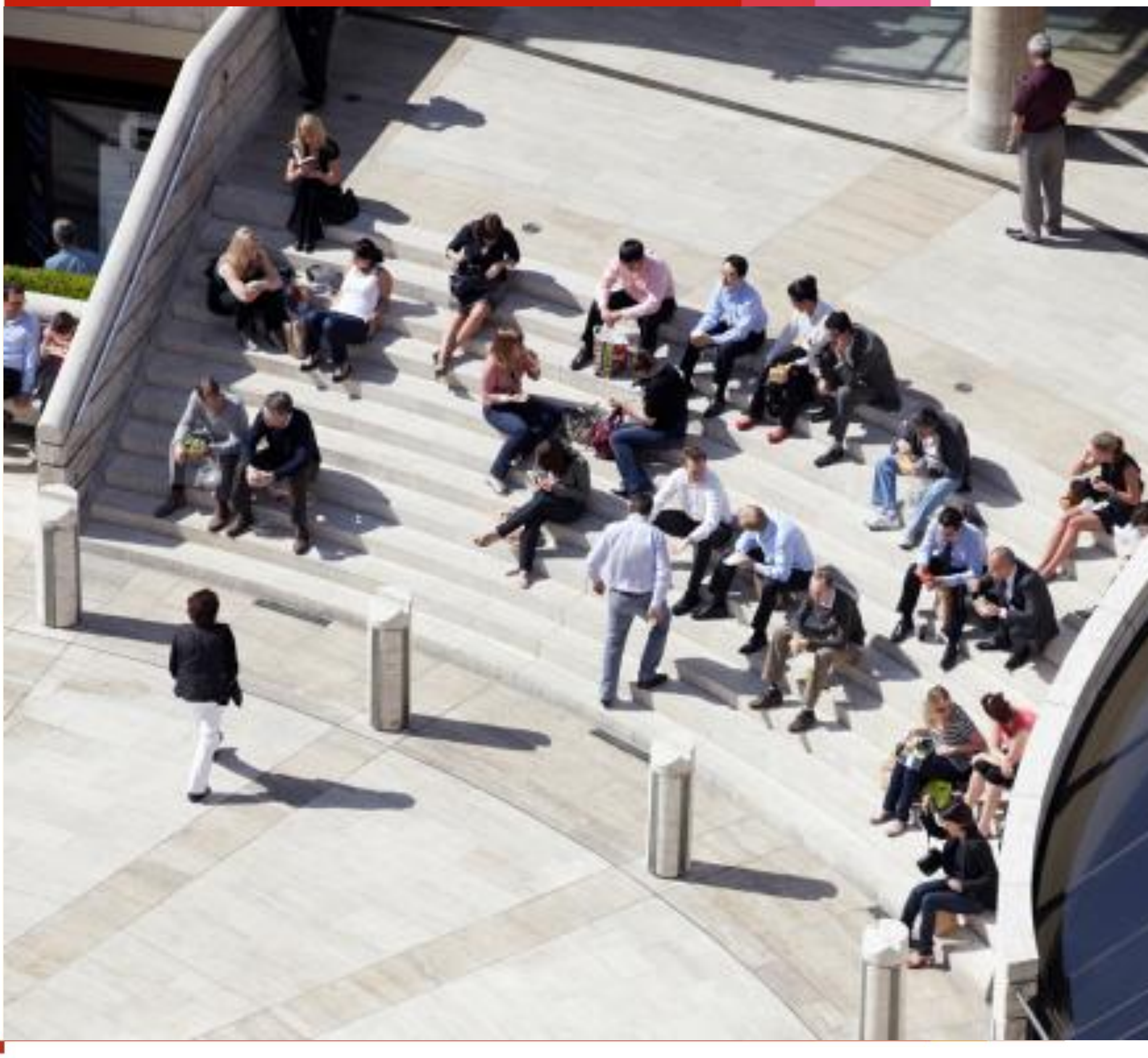
HR Quarterly

December 2012



A quarterly journal published by PwC South Africa providing informed commentary on current developments in the Reward arena both locally and internationally.

Contents

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The value of Human Capital

Labour is prior to, and independent of, capital. Capital is only the fruit of labour, and could never have existed if labour had not first existed. Labour is the superior of capital, and deserves much the higher consideration.
Abraham Lincoln

Talent is at a premium. Misalignment between available workers and needed skills, along with expanding timeframes for finding talent are limiting the ability of companies to fully pursue growth agendas. The days of cost cutting, hiring freezes, and hamstrung budgets have yielded to a pressing need for businesses to get back to growth and for human resources to mobilise and manage the talent that can make it happen.

Harnessing the strength of human capital capabilities in pursuit of competitive advantage and global growth remains our guiding goal. But today, it's not enough. Human resources must hit the sweet spot with better, smarter, faster, and leaner performance. The time is right for human resources to step up its game and meet these stepped-up demands and expectations. How do we get there? Challenging though it might be, we believe the tools exist to get the job done.[1]

A significant part of the answer lies not in the soft skills so often presumed to underlie the essence of Human Resources, but in the nuance of data. Far from turning the human resources practice into a numbers game, it's about using workforce data to better read our organisations and the people that power them. Leading organisations are utilising human capital metrics, surveys, and predictive analytics to bring workforce insights out of the shadows and to draw a vivid profile of everything from workforce trends, patterns, and motivations to operational and human resources cost drivers and organisational assets.

Today's expectations are high. But reward and human resources professionals have access to a suite of analytical tools like never before — analyses that can help us enable our enterprise assets.

We would like to wish you and your loved ones a very peaceful and blessed festive season. In 2013 we will again relook the strategies of how to invest in our human capital and to increase our effectiveness as reward professionals.

The PwC Reward Team

[1] To obtain a copy of the latest HR Innovation publication please contact René Richter at rene.richter@za.pwc.com.

Focus on asset management reward

PwC recently acquired PRPi Consulting which provides reward benchmarking data for companies in the asset management sector and is the recognised market leader on pay analytics in that industry. Richard Parkhouse, founder and co-owner of PRPi Consulting, joined our Reward team in Financial Services in London on 31st July 2012.

The acquisition added increased strength to the Reward services PwC offer to asset management businesses, as we combine our market leading pay consulting practice with the leading database of pay levels, total compensation, and performance benchmarks for the industry. It also supports the continued growth of our pay data analytics businesses and adds new capability in this area.

Why is benchmarking so important now?

Asset management is above all a people business – top performing executives, fund managers, analysts, and sales professionals are in high demand regardless of the state of the economic environment and firms need to be constantly vigilant to ensure key value generators are retained and incentivised. There is also evidence from our research that 61% of firms are planning to increase headcount between 1-10% in 2013.

At the same time, market volatility coupled with increased scrutiny from regulators and other external stakeholders is putting pressure on remuneration spend. People costs make up the majority of spend in the sector and such costs need to be tightly controlled and focused on key performers with pay decisions becoming more granular and targeted than ever before. As a result, tough decisions have to be made. Robust and reliable benchmarking information on both remuneration spend and individual pay levels collectively provides HR and other senior decision makers with an objective decision making framework to support and justify such decisions in the interests of maximising human capital productivity.

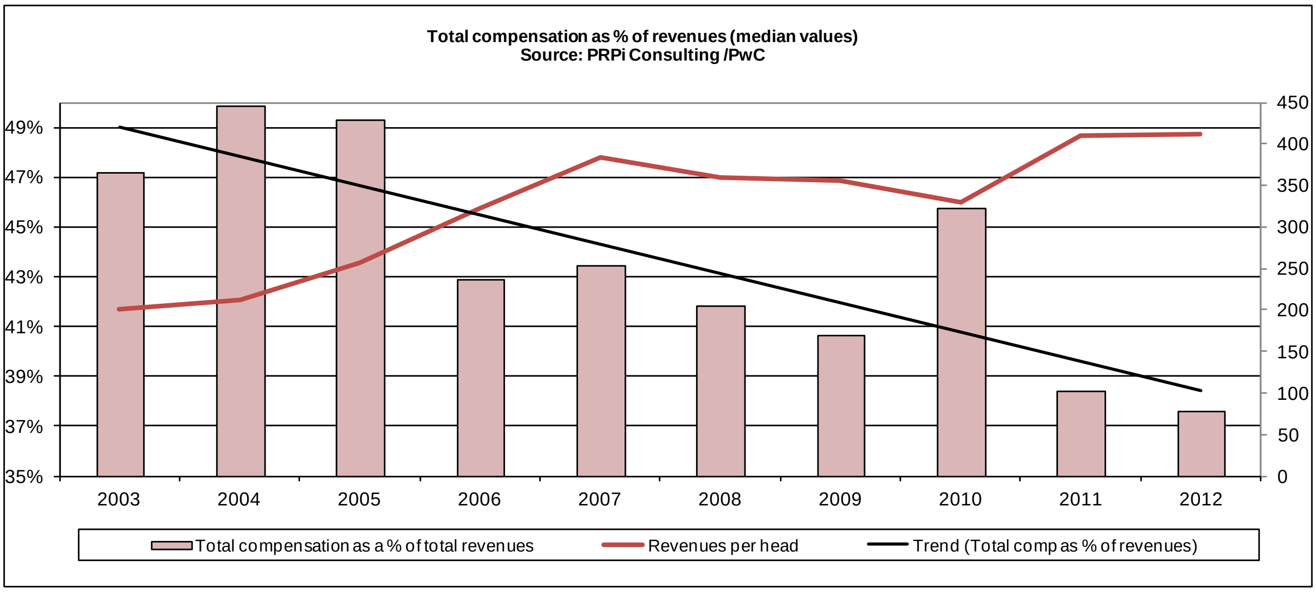
Remuneration Committees are under increasing pressure to exercise independent judgement and this is easier to do when underpinned by objective industry data.

There is also growing pressure on institutional shareholders to use their proxy voting power in respect of senior executive remuneration in investee companies and asset management firms are in danger of drawing criticism where their own practices are out of line without justification.

What surveys are now available in South Africa?

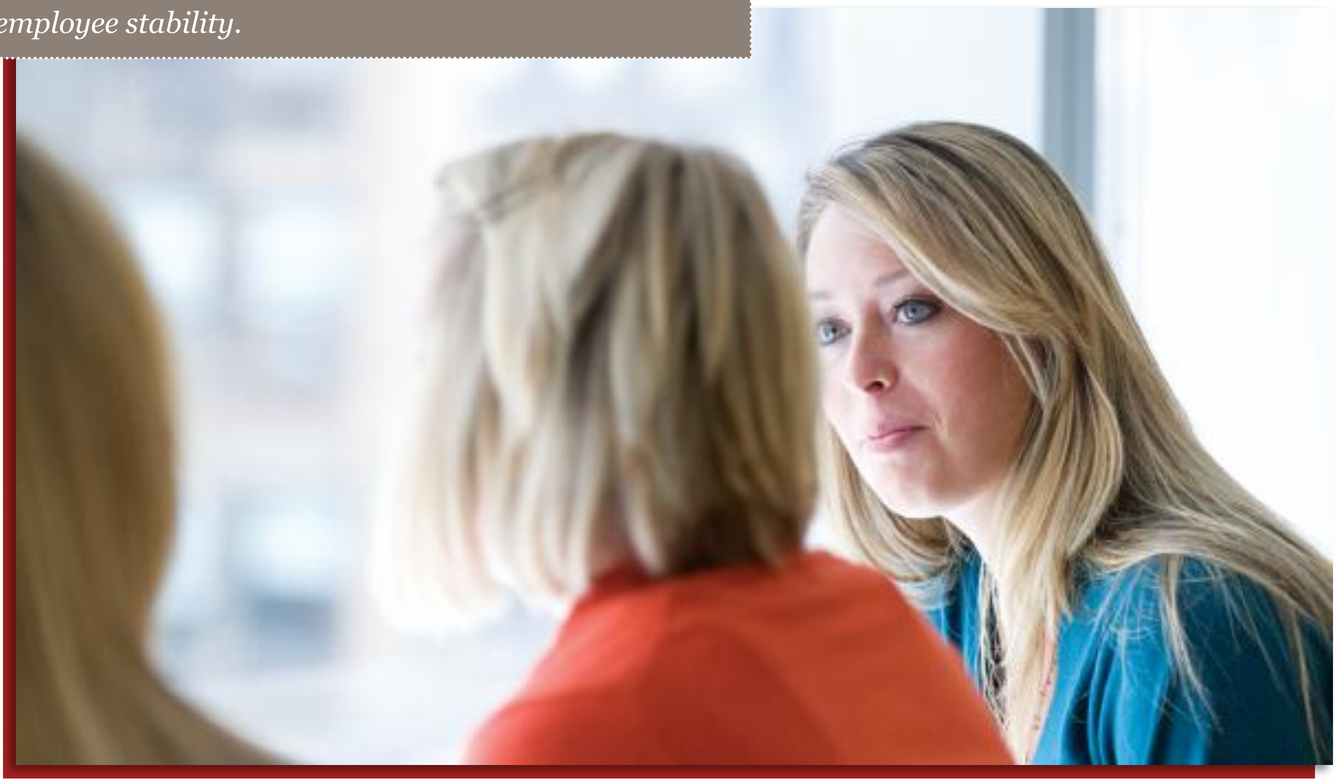
We will offer our Remuneration ROI survey through REMchannel, a well established and critically acclaimed annual remuneration survey which will be underpinned by a strong network of Human Resources professionals in asset management firms. This survey will allow firms to compare themselves with key peers on both a local and international level as required.

The survey compares the key drivers and explores the psychology behind compensation decisions in asset management as it is designed to guide C suite and/or Remuneration Committees to support informed, insightful and independent decision making. It also enables firms to gauge if they are getting value for money in terms of shareholder value, employee productivity and employee stability. It also features our unique CEO Dashboard which presents key data in an ultra concise format. An interesting feature of the industry, highlighted in the graph below is that total spend on compensation as a percentage of revenues has been (mostly) falling since 2005 whilst during the same period, firms have been steadily increasing their productivity.



We will be approaching our asset management and investment clients to invite you to participate in 2013 and to answer any questions they may have. It is envisaged that this will be in the form of a workshop and we will provide more details early in 2013. In the meantime if you have specific questions regarding the methodology please contact Richard Parkhouse at richard.parkhouse@uk.pwc.com.

The Remuneration ROI survey enables firms to gauge if they are getting value for money in terms of shareholder value, employee productivity and employee stability.



Welcome aboard: new REMchannel® and REMeasure® subscribers

PwC continues to strive to provide our clients with the highest quality of information which forms a crucial element in the reward decision-making process.

We would like to extend a warm welcome to the following companies who have joined our list of discerning Southern Africa survey participants since 1 July 2012.

- Ackermans
- Ambledown Risk and Underwriting Managers (Pty) Ltd
- ARXO Logistics (Pty) Ltd
- BHP Billiton Ltd (Australia)
- Brimstone Investment Corporation Ltd
- Buhler (Pty) Ltd
- Central Rand Gold (Pty) Ltd
- Communicare
- Crucialtrade 51 (Pty) Ltd
- CSAV SA (Pty) Ltd
- Deutsche Securities (Pty) Ltd
- Elemental Minerals Ltd
- First Quantum Minerals SA (Pty) Ltd
- Gold One International t/a Rand Uranium
- Ivanplats SA
- Kentz (Pty) Ltd
- KIA Motors SA (Pty) Ltd
- Kleine Zalze Wines (Pty) Ltd
- Lanxess (Pty) Ltd
- LGA Logistics Consultants (Pty) Ltd
- Megchem Engineering & Draft Services
- MSSL Global RSA Module Engineering Ltd
- Neotel (Pty) Ltd
- NMG Consultants & Actuaries
- PPS Investments (Pty) Ltd
- PSG Asset Management
- Quintiles Clindepharm (Pty) Ltd
- Samancor Chrome Limited
- Sebata Institute
- Shell International
- The Ombudsman for Short-Term Insurance
- Totalgaz Southern Africa (Pty) Ltd
- Tronox Mineral Sands (Pty) Ltd

Our survey client base now exceeds 460 of the top organisations in South Africa with a total database sample of more than 900 000 data points. Our market share has increased to 80% in South Africa.

If you would like to obtain an updated client and Key Account Manager list please contact Margie Manners at +27 11 468 2639. You can also extract the participant list from the PwC Remchannel system if you subscribe to the online survey.

PwC Remchannel

We would also like to extend an equally warm welcome to the following companies who have joined our list of discerning REMeasure® job evaluation subscribers since 1 July 2012.

- Ackermans
- BESTmed
- Ivanplats SA
- Lancet Laboratories
- Mangosuthu University
- Megchem Engineering & Draft Services
- MSSL Global RSA Module Engineering Ltd
- Richards Bay Coal Terminal
- Tshipi é Ntle Manganese Mining (Pty) Ltd
- Vergenoeg Mining

What constitutes outdated salary survey information?

How does this impact you as a reward professional in your decision-making process?

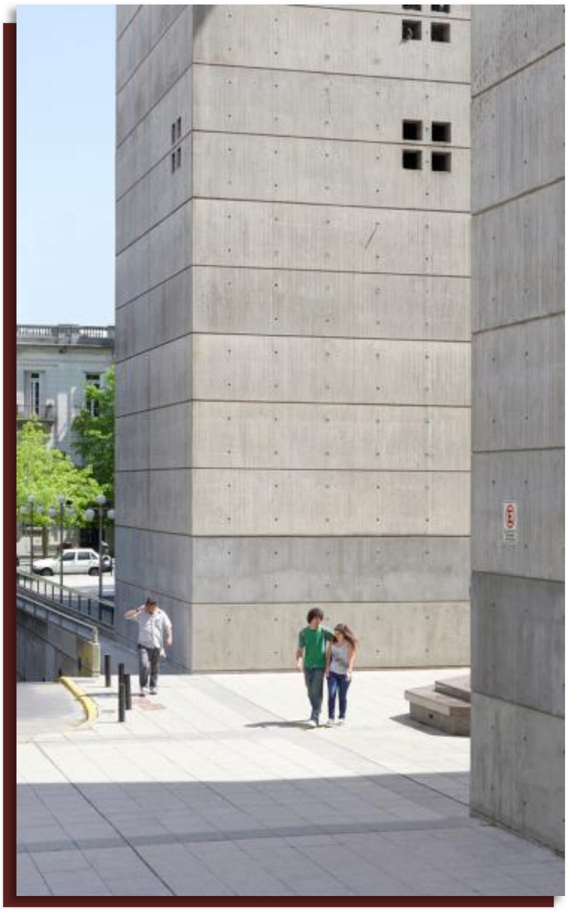
Over the past few months we have had to delete numerous participating companies' data due to the current contractual agreement that we have with our clients.

The agreement states that PwC Remchannel must delete data if the client has had a review and refreshed information is not provided within a 13 month period. The main reason for this practice is to ensure that old information is not retained in the system and that all clients have the benefit of updated remuneration data in their decision-making process.

This practice does however influence the sample sizes in the survey and if a large company's data is deleted at any given time it could have a significant impact on the survey results. For this reason we are exploring the possibility to advise clients of deletions each month to ensure that they understand the potential impact on the database. We have been approached by clients to review the current retention of data practice and for this reason we are in the process of doing a poll to ascertain whether the suggested changes will be viable, both from a data and legal perspective.

To date only 25% of our total subscriber base has completed the survey and the results show that the majority (87.2%) of these subscribers are familiar with our current methodology. In 77.8% of cases respondents agree with the methodology. There was however a number of respondents who indicated that the data retention period in REMchannel® must be extended, specifically in certain circumstances. The periods selected are as follows:

No. of Months	Response Percent	No. of Respondents
16 months	28.8%	23
18 months	30.0%	24
24 months	17.5%	14
Other (please specify)	23.8%	19



Only 17% of the total participant base is in favour of age correcting outdated information on behalf of the subscribers if they are unable to meet the deadlines. As this does not constitute the number of our subscribers required to make changes to the data retention and collection methodology (i.e. 75%), we will at this stage not be able to implement changes. It is also evident that our subscribers understand the impact of retaining outdated information in a salary survey and 64% of the respondents indicated that companies who do not provide data must not have access to the survey data.

Outdated salary survey information *cont/*

In 62% of cases the respondents to this survey indicated that all subscribers must be notified if a company does not provide updated information. This does however remain a sensitive issue and there may be very valid reasons why information could not be provided timeously. For this reason we encourage our participants to review the monthly notification email and extract the list of participants in any particular month from the REMchannel® general reports. A list of deleted companies will be provided on request.

We will keep the survey open until most of our subscribers have responded and will again review the retention of data methodology at that time. Whatever the outcome, our first consideration will always be to provide quality, updated information to subscribers. Should changes be required to our current methodology we will also have to consider the legal and contractual implications for subscribers.

Should you wish to discuss the survey or the methodology, please contact Rene Richter at 082 460 4348 or alternatively via email at rene.richter@za.pwc.com.

Making pay fairer

Our recent* ‘Making executive pay work’ *report suggested that executives tend to be broadly happy with their pay package as long as they consider it to be fair in comparison to others. But what do we understand by the term ‘fair’?

The topic of fairness in incentives and reward has never been hotter. Shareholders have been protesting against what they see as excessive executive pay packages for the current austere times, and we’ve seen media coverage on high profile figures perceived as being rewarded for failure or presiding over corrupt regimes. Our recent report, ‘Making executive pay work’, delivered an interesting twist on this. It suggested that executives tend to be broadly happy with their package as long as they consider it to be fair within the hierarchy of their own organisation and when compared to those working at a similar level in competitors. “The question of what people view as their peer group may vary. But, certainly with executive and boardroom pay, a big driver is the people they view externally as their peers,” says Tom Gosling, Head of Reward in PwC’s Human Resource Services practice. “As you go a level or two down internal relativity begins to play a much more important role.” The problem is that external comparisons like these tend to have an inflationary effect, as remuneration committees find it hard to deny executives the parity they desire, he adds.

Primary driver for most executives is intrinsic competition

Cary Cooper, Distinguished Professor of Organisational Psychology and Health at Lancaster University Management School, argues the primary driver for most executives is intrinsic competition that heats up as positions become more senior. “The driver of incentives, particularly at senior management level, is your perceived value over others, who you’re competing with at your level, not per pound of money,” he says. Our survey didn’t reveal any major differences between men and women but did hint at differences across countries. In China and Brazil, for instance, the overall value of the package was seen as more significant than peer comparison, while in India fairness again came through as a major concern.

More significant, perhaps, are the implications of this for long-term incentives. These can produce very volatile results over long time periods and can often have the exact opposite effect of what was initially intended. “When things are on the up and executives get a windfall they just pocket it and don’t particularly thank you for it,” says Gosling. “But if it happens on the downside and they perceive [their reward] as being unfair, it creates a huge negative emotion among the participants. You get this inherent asymmetry which means you end up aggravating people more than you please them.”

“... System around pay and incentives isn’t incentivising anything; all it’s doing is creating a gulf”

The link between executive pay and that of the wider workforce has so far been largely ignored by remuneration committees but is now coming firmly on to the agenda. “There’s a growing realisation around what it looks like if the organisation isn’t doing well, the employees have had a pay freeze and you then give these top individuals an increase or a bonus,” says Charles Cotton, Performance and Reward Adviser to the Chartered Institute of Personnel and Development. “You have the argument that if you don’t pay the market rate they may move, but you could also argue that if those individuals are prepared to move for more money they may not be what you need in this new leadership model.” There’s been a move in recent years towards excessive remuneration where the spoils of success are shared by an elite few. This huge gap between the top and bottom of the company can have a devastating effect on morale, warns Cooper. “Share options rarely go down to middle management level but they’re the people actually doing the work,” he points out. “The whole system we’ve set up around pay and incentives isn’t incentivising anything; all it’s doing is creating a gulf. If you go to any middle manager, or even a junior senior manager, they’ll be appalled at what the people at the top have been paid.” One aspect is evident:

“Individuals choose who they compare themselves with and it’s very difficult for HR to get a handle on that. They can make sure that things are procedurally fair internally but that isn’t the only concern for the individual, and it’s the individual’s perception that’s key to this.”

If you would like to obtain a full copy of the September 2012 Hourglass thought leadership publication, please contact Rene Richter at rene.richter@za.pwc.com

South African retail and consumer products outlook 2012 - 2016

Competition continues to drive efficiencies in all South African business, but probably more so in the Retail and Consumer Products environment. Consumers have a myriad of choices and they don't hesitate to exercise their right in a free economy.

Challenging business environment

As we contemplate future prospects, it is equally important to reflect on the events of the past few years and the context they provide. The global financial crisis of 2008 and the recession that followed brought with it pervasive uncertainty, which has been exacerbated more recently by the Eurozone crisis and economic slowdown in Asia. Such global events have certainly been felt in South Africa, with GDP shrinking by 1.3% in 2009, and the sluggish recovery experienced since 2010 continues to restrict growth potential across a range of industries and sectors, including retail and consumer products. With slow GDP growth, high unemployment and structural shortcomings in the economy persisting, overall growth for the forecast period is expected to be modest, if not fragile. In particular, retail and consumer products companies must contend with limited volume growth, increasing costs and falling prices.

Competition driving efficiency

The entry of Walmart into the South African market is expected to further intensify competition, placing added pressure on already thin average profit margins. As competition increases, companies are being driven to introduce more efficient supply chains and advanced technology to reduce the cost of doing business and enhance the customer experience. Cost inflation brings similar pressures and we expect retail and consumer goods companies will make significant progress in slicing out costs along their supply chains and operations to achieve volume growth above their fixed-cost bases. This will be no mean feat given that electricity prices are continuing to increase materially, along with wages and both the costs of fuel and retail occupancy.

Consumer power

Increased competition translates into more power and choice for consumers. In this era of the Internet and social media, consumers are also becoming more vocal as they can compare products, prices and customer experiences online in real time.

While companies have nowhere to hide, the fact that consumers are now more active in voting with their wallets can be seen in the pressure being placed on companies to demonstrate a commitment to sustainability, fair business practice, appropriate food labelling and employment equity, to mention a few recent instances. Companies that fail to stand up to customers' scrutiny will feel the effects in lost sales.

Pursuing growth

Despite retail and consumer products companies' almost single-minded focus on operational efficiency, there is also a mood of cautious

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optimism as they continue to seek growth opportunities in new areas, both in South Africa and across Africa. Opportunities identified include attracting informal trade at the lower end of the market into the formal retail sector and capitalising on the opportunities presented by the country's steadily expanding black middle class. In contrast, online retailing will remain a niche proposition for the medium term, although we expect to see growth accelerate as Internet access reaches critical mass. Given local constraints and despite the considerable challenges, all major retail and consumer products companies have started to either expand into the rest of Africa or increase the presence they already have there, some more aggressively than others. Over the years, many of the most successful companies in South Africa have developed their business models to compete and be successful in the tough African market. Today, we see they most often find themselves better prepared and more competitive when expanding into other African economies, where the realities of supply chain difficulties, poor infrastructure and unfamiliar cultural, legal and trading environments can be daunting.

If you require a copy of the full thought leadership publication, please contact René Richter at rene.richter@za.pwc.com or alternatively on +27 82 460 4348.

Salary increase projections 2013

With the recent labour unrest in South Africa, what is in store for 2013?

Mining and manufacturing production both fell during September, reflecting the effects of widespread labour turbulence and weaker global demand for domestic exports. The two sectors combined account for a fifth of economic output, and the problems they face will curtail job creation and the economy's pace of growth. Mining output contracted 8% during September, while manufacturing activity shrank 2.3%, as indicated by figures released by Statistics South Africa. Compared with the same month last year, mining declined 8.3% and manufacturing 1.1%. Production of platinum group metals decreased 17.8% year on year; gold decreased by 11.1%; and copper fell by a massive 60.2%.

As minerals account for more than 40% of South Africa's exports the already substantial trade deficit will continue to widen if output continues to decrease. This may well force the rand to weaken and escalate inflation which in turn will affect salary increases.

The next few months will continue to be impacted by the shrinking sectors and the growing effect of substantially higher increases than CPI (consumer price index) in a down turned economy will have adverse effects on output and economic growth prospects. Although the recent PwC Remchannel Salary and Wage Movement survey does not reflect these trends as yet as reflected in the total guaranteed package table below, it is expected that it will be seen in the first quarter of 2013.

Anticipated total package increments for the next twelve month period (September 2012 to September 2013)

Employee category	25th percentile	50th percentile	75th percentile	Average
Executives	6.0%	6.8%	7.0%	6.7%
Management	6.0%	7.0%	7.0%	6.8%
General staff	6.1%	7.0%	7.0%	6.9%
Key specialists	6.5%	7.0%	7.0%	6.8%
Unionised staff	6.0%	7.0%	7.5%	6.9%
Total lift to payroll	**6.3%**	**7.0%**	**7.0%**	**6.8%**

The results of the September 2012 Salary and Wage Movement survey comprising of 60 participants has been released. Should you wish to obtain a copy of the survey, please contact Louna Robbertse at louna.robbertse@za.pwc.com or margie.manners@za.pwc.com. Please note that terms and conditions apply and that the survey will only be made available to non-participants on the proviso that you participate in the March 2013 survey.

Labour unrest –is the Labour Relations Act to blame?

The tragic and bloody events of Marikana in August 2012 has attracted huge publicity and debate worldwide, with many claiming that the current Labour Relations Act is the root cause of the tragedy, as the Act does not properly address issues and needs in the current day. The Labour Court however has a very different view. We consider the Labour Court's view as expressed by Justice Andre Van Niekerk.

After Marikana, South Africa has experienced countless violent protests by different industries and groups of workers. Most of these protests are categorized as unprotected strikes due to them being unprocedural. There has also been a drop in the use of bargaining councils, as workers opt to rather use illegal strike action to communicate their demands. There is seemingly a breakdown in the rule of law, with Court orders being blatantly disregarded by employees. Perhaps the Labour Relations Act of 1995 is somewhat out-dated and its shortcomings are the reason for which citizens have decided to take the law into their own hands and to go to all measures to demand and receive what they want?

The Labour Court has objected to this viewpoint and the criticisms of the law and is of the view that the Labour Relations Act (Act) cannot be to blame. Reasons for this view are that collective bargaining is the preferred method for resolving disputes and the Act provides a structure for this process. The

Is the Labour Relations Act to blame? cont/...

Act also encourages collective bargaining and it permits various types of collective agreements and does not prescribe the terms of collective agreements. Organisational rights such as the right to strike are provided for. Therefore, the Labour Relations Act provides the platform for parties to negotiate and places the responsibility of formulating the actual terms of collective agreements in the hands of the drafters thereof, being the employees and their employer. The argument of the Court is that the fault lies in the wording of collective agreements and not the Act. Justice Van Niekerk has stated that there is nothing wrong with the current law, it in fact is very well drafted, it just needs to be implemented correctly.

However, the labour legislation in South Africa, including the Labour Relations Act, is likely to be amended. The provisions in the Act relating to strikes will be amended such that it will become compulsory for a ballot to be held before embarking on a strike, to prevent a situation where there is no majority support for the industrial action and to avoid violence and intimidation. Advocate Tembeka Ngcukaitobi, one of the legal counsel involved in the Marikana Court matter, has stated in agreement with the Labour Court's view that, although some of the proposed amendments are an improvement, the Act does not require amendment. He states that the answer to the fixing and preventing a situation of labour unrest is not to be found in amending the law, but rather to be found by creating equality.

Ngcukaitobi has recently stated that in the Marikana incident, approximately 16 000 out of 30 000 of the mine workers live in informal settlements in a state of abject poverty without access to basic resources. His view is that the government has failed to deliver these basic resources, and since the workers are receiving little or no assistance from the government they have turned to their employer to address their needs. It could therefore be argued that the Labour Courts have become a forum to resolve political disputes.

The provisions in the Labour Relations Act relating to strikes will be amended so that it will become compulsory for a ballot to be held before embarking on a strike, to prevent a situation where there is no majority support for the industrial action and to avoid violence and intimidation.

With the various stakeholders all pointing fingers at different parties, the actual cause of Marikana and the spate of violent protests across South Africa is not clear. In reality the cause is a combination of all the factors. What is for certain, however, is that there needs to be measures in place in organisations to facilitate effective negotiation both at an individual and collective level to ensure disputes are settled in a lawful, peaceful manner.

Article provided by Candice Aletter, Employment Law Practice within Human Resources Services. For more details contact candice.aletter@za.pwc.com.

Forthcoming attractions

The following thought leadership and survey publications will be released during 2012. Should you wish to obtain more information about these publications, please contact Gerald Seegers, Martin Hopkins or René Richter.

- Non-Executive Director's thought leadership publication (January 2013)
- Salary and Wage Movement Survey (2nd Quarter 2013)
- Short Term Incentive and Commission Survey (2nd Quarter 2013)
- Executive Directors Remuneration thought leadership publication (July 2013)
- Employee Benefits Survey (3rd Quarter 2013)

These are just some of the publications planned for the next 12 months and we will publish additional reward and human resources thought leadership publications on our website on a continuous basis.