HR Quarterly

October 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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Labour in Action

Chaos is the score upon which reality is written – Henry Miller

This is particularly true of the South African economic and labour market in the aftermath of Marikana.

After many weeks of ongoing violence and demands for a salary increase that, if granted would surely have flooded the South African labour market with more unemployed citizens, a settlement was finally reached.

The 11% to 22% settlement granted by Lonmin will most certainly still be a trade-off against jobs as indicated by James Dray, spokesperson for Lonmin. The impact of the strike and increases granted has already seen the first casualty in terms of the termination of a Murray and Roberts contract worth 65 million which affects 1 200 contracted workers.

The question asked by every reward professional is how this will be impacting increases and business sustainability in South Africa. In this edition of the *HR Quarterly* we provide a historical overview of movements in the Mining Industry sector. We will also be publishing the latest Salary and Wage Movement Survey early October 2012. These publications will provide you as a reward professional with an overview of market movements to ensure proper planning and budgeting in the coming months.

We trust that the research data and consulting expertise provided by our respective teams will become invaluable to you in your decision-making process.

The PwC Reward Team

PwC HRS News

We are pleased to announce that the UK Tax Practice has acquired PRPi Consulting. PRPi Consulting 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, has joined our Reward team in the UK. Richard is an experienced HR practitioner with over thirty years experience in the healthcare, airline, distribution and financial sectors both in the UK and Middle East. Before setting up PRPi, Richard was Global Head of Human Resources for Baring Asset Management and a member of the board. He's also a regular contributor to the Financial Times on reward issues.

The acquisition adds increased strength to the Reward services we can 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. Some of these are:

- Margins
- Fixed costs
- Incentive costs
- Compensation mix
- Top 10% employee compensation spend
- Employee stability
- Overall and functional competitiveness
- Productivity and shareholder returns

The Reward Consulting team under the leadership of Martin Hopkins is steadily growing with very competent and dedicated staff. The latest addition to the team is Yoli Mqoboli who will be assisting and learning from our experienced reward consultants in the team.

We trust that the team will continue to add value to your business, specifically in the reward environment.

PwC Remchannel Surveys

Welcome aboard: new REMchannel® participants

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 July 2012.

- Ackermans
- Ambledown Risk and Underwriting Managers (Pty) Ltd
- ARXO Logistics (Pty) Ltd
- Brimstone Investment Corporation Ltd
- Buhler (Pty) Ltd
- Central Rand Gold (Pty) Ltd
- Communicare
- Crucialtrade 51 (Pty) Ltd
- CSAV SA (Pty) Ltd
- Gold One International t/a Rand Uranium
- Kentz (Pty) Ltd
- KIA Motors SA (Pty) Ltd
- Lanxess (Pty) Ltd
- Megchem Engineering & Draft Services
- Neotel (Pty) Ltd
- NMG Consultants & Actuaries
- PPS
- Quintiles Clindepharm (Pty) Ltd
- Samancor Chrome Limited
- Sebata Institute
- Shell SA

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 participation list from the PwC Remchannel system if you subscribe to the line line survey

Our survey client base now exceeds 455 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 78% in South Africa.

Can an employer change workers' shift patterns without attracting claims of a breach of contract?

In the current economic climate employers are often compelled to make a change to their procedures or processes in respect of their employees' work for the sake of improving productivity or for financial reasons. Here we pay particular attention to the Court's view regarding a change in workers' shift patterns.

In the 2012 decision of *Apollo Tyres South Africa (Pty) Ltd v National Union of Metalworkers of South Africa & Employees employed at Apollo Tyres SA (Pty) Ltd*, which has not yet been reported, the Court was faced with the question as to whether a change in shift patterns amounts to a unilateral change to a term and condition of employment which could be seen as an unfair labour practice or breach of contract. In short, the facts of the case were as follows: the employer wished to make a change in its shift system to meet its operational needs and therefore consulted with the union. The employer and the union were unable to reach an agreement on the employer's proposed changes. Accordingly, the employer announced that as of 1 February 2012 a new shift system would be effective.

The employees were unhappy with the employer's decision and, relying on Section 64(4) of the Labour Relations Act, the union referred a dispute to the relevant bargaining council alleging that there had been a unilateral change to the employees' terms and conditions of employment. Section 64(4) of the Act provides that:-

"Any employee who or any trade union that refers a dispute about a unilateral change to terms and conditions of employment to a Council or the Commission in terms of subsection (1)(a) may, in the referral, and for the period referred to in subsection (1)(a)-

Employees do not have a vested right to preserve their working times unchanged for all time. A change in shift system does not amount to a change in the nature of the job.

a. require the employer not to implement unilaterally the change to terms and conditions of employment; or

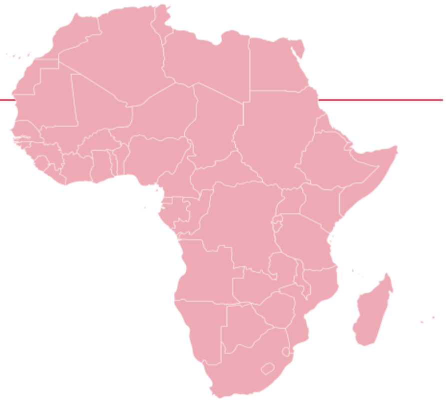
b. if the employer has already implemented the change unilaterally, require the employer to restore the terms and conditions of employment that applied before the change."

The employer's argument was that the change did not amount to a unilateral change to the terms and conditions of employment but rather merely the application of management's prerogative. The employer then approached the Court for a declaratory order as to whether there had in fact been a unilateral change to the terms and conditions of employment.

The Court's view was that the judgements in *Johannesburg Metropolitan Bus Services (Pty) Ltd v SAMWU & Others (2011)* 32 ILJ 1107 (LC) and *Ram Transport (SA) (Pty) Ltd v SATAWU & Others* (2011) 32 ILJ 1722 (LC) on the same issue were correct. In the aforementioned decisions both Courts referred to *SA Police Union v National Commissioner of the SA Police Service* (2005) 26 ILJ 2403 (LC) where it was held that without express, implied or tacit contractual rights to such effect, employees do not have a vested right to preserve their working times unchanged for all time. A change in shift system does not amount to a change in the nature of the job. The shift system amounts to a mere work practice and not a term of employment. Interestingly in this decision the SAPS unilaterally introduced a change from a 12 hour shift system to an 8 hour shift system. In the Apollo decision the Court also held that the union could therefore not pursue their dispute in terms of Section 64(4) but could rather raise a dispute of mutual interest, as the issue was not one involving a unilateral change of terms and conditions of employment.

Currently the Courts' current approach seems quite accommodating to the employer who wishes to make changes to work practice. But it is important to note that if there is a collective agreement in place between the employer and a union, the employer must first check the provisions of the agreement before making any changes in work practice as the agreement may preclude the employer from making such changes.

For further information on changes in work practice please contact Candice Aletter at candice.aletter@za.pwc.com.



Africa Economic Data

Africa economic growth is considerably higher than current global growth and we have the largest population of young people in the world.

During our recent Africa conference in Mozambique the challenges of conducting surveys in Africa was discussed at length. What is evident is that multi nationals and South African companies will have to invest in conducting research in Africa to ensure the continued management of remuneration.

The economic overview below provides you with some insight into the growth in Africa and substantiates why research investment needs to be made.

- 50 out of 56 countries reported real GDP growth in excess of 3% during 2011
- 23 out of 56 countries reported an average real GDP growth in excess of 5% for the last ten years
- 28 out of 56 countries reported inflation rates of more than 5% during 2011
- 5 of these reported double digit inflation rates
- Africa spend on education has increased dramatically to 9.2% on average of GDP (South Africa at 6%)
- BRIC countries – estimated that by 2050 these will be the wealthiest economies, and they have invaded Africa with money, infrastructure, goods and equipment!

Should you wish to obtain more information about the presentations at the conference, please contact Martin Hopkins or René Richter.

PwC Long-term Incentive Survey 2012 published

Long Term Incentives form a crucial part of the Total Rewards offering for executives but can be a contentious and conflicting subject.

The *PwC Long-term Incentive (LTI) Survey 2012* was published in August and it highlights certain definitive trends as regards the design and operation of LTI plans in South Africa. An invitation for participation in this comprehensive survey, which focuses on LTI plans as well as attraction and retention mechanisms, was extended to South African companies listed on the Johannesburg Stock Exchange (JSE) and to the South African subsidiaries of a number of large global companies.

Twenty eight companies, representing a number of major industries in South Africa, participated in the survey. The participating companies are as follows:

African Oxygen Limited	Nampak Limited
Anglo American Platinum Limited	Optimum Coal Services (Pty) Limited
AngloGold Ashanti Limited	Pretoria Portland Cement Company Limited
ArcelorMittal South Africa Limited	Rainbow Chicken Limited
Aveng Limited	Rio Tinto Management Services (Pty) Limited
Business Connexion Group Limited	Sasol Limited
Discovery Holdings Limited	Shoprite Checkers Limited
Exxaro Resources Limited	Stefanutti Stocks Holdings Limited
FirstRand Limited	Super Group Limited
Gold Fields Limited	The Bidvest Group Limited
Group Five Limited	Tiger Brands Limited
Harmony Gold Mining Company Limited	Tongaat Hulett Limited
Hulamin Limited	Vodacom Group Limited
MTN Group Limited	Woolworths Limited

Some of the high-level findings of the survey include:

- Full share LTI plans continue to increase in popularity in South Africa, with forfeitable shares being the instrument of choice for most companies. In contrast, option or share appreciation right plans, although still employed by many companies, are less favoured when remuneration committees consider the implementation of new LTI plans.

- Shareholders continue to demand a clear link between LTI payouts and company performance and it is therefore not surprising to see the emphasis on performance conditions when companies make LTI awards. Certain financial performance conditions remain evergreen favourites, though non-financial or strategic performance conditions are also gaining traction in South Africa, in line with global trends.

- The calculation of LTI award quanta remains a contentious issue. Due to its simplicity, many companies still use a face value (i.e. spot price of the underlying share) approach to calculate their LTI awards. This despite the fact that the making of awards based on a measure of the fair value of the instrument yields more accurate results and allows a direct comparison to market benchmarks.

Shareholders continue to demand a clear link between LTI payouts and company performance and it is therefore not surprising to see the emphasis on performance conditions when companies make LTI awards.

- Our current research highlights that skills shortages and the retention of key talent is top of mind for executives. Companies employ different remuneration strategies to help achieve these objectives, either through their 'traditional' LTI plans or through complementing schemes.

- The accounting benefits associated with settling LTI awards in shares result in most companies following an 'equity-settled' approach (as opposed to cash settlement). The majority of companies purchase LTI shares in the market in order to avoid shareholder dilution resulting from a fresh issue of shares.

- The survey also explores the methods used by the participating companies to value their LTI awards as well as how valuation inputs (e.g. volatilities, dividend yields) are determined.

Note that for non-participating companies the report is available at a surcharge on the proviso that your company participates in the next scheduled survey. Please contact Margie Manners at margie.manners@za.pwc.com or on **+27 11 468 2639** to obtain a copy of the survey.

For assistance with the design and implementation of a LTI plan, please contact any of the following members of our Reward team:

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Historical mining salary trends

Is the past a prediction of the future? If so, how sustainable is it in a down turned economy?

Over the past five years the mining industry sector increases have not only been higher than CPI but on average 1 to 2 percentage points higher than the National All Industries market sector. The only exception during the five year period was 2008 where the CPI average was 0.83 percentage points higher than the annual overall lift to payroll. However, during this year the unionised average Total Guaranteed Package was only 0.23 percentage points lower than CPI.

The higher increase percentages may be attributed to the fact that the environment is highly unionised as well as the critical technical skills shortages in South Africa. To demonstrate this trend the table below provides an analysis of the Total Guaranteed Package movements by employee category since 2007. Total Guaranteed Package can be defined as cash salary, cash/non-cash allowances and core benefits such as medical aid and retirement funding. It does not include circumstantial allowances such as shift, standby and overtime.

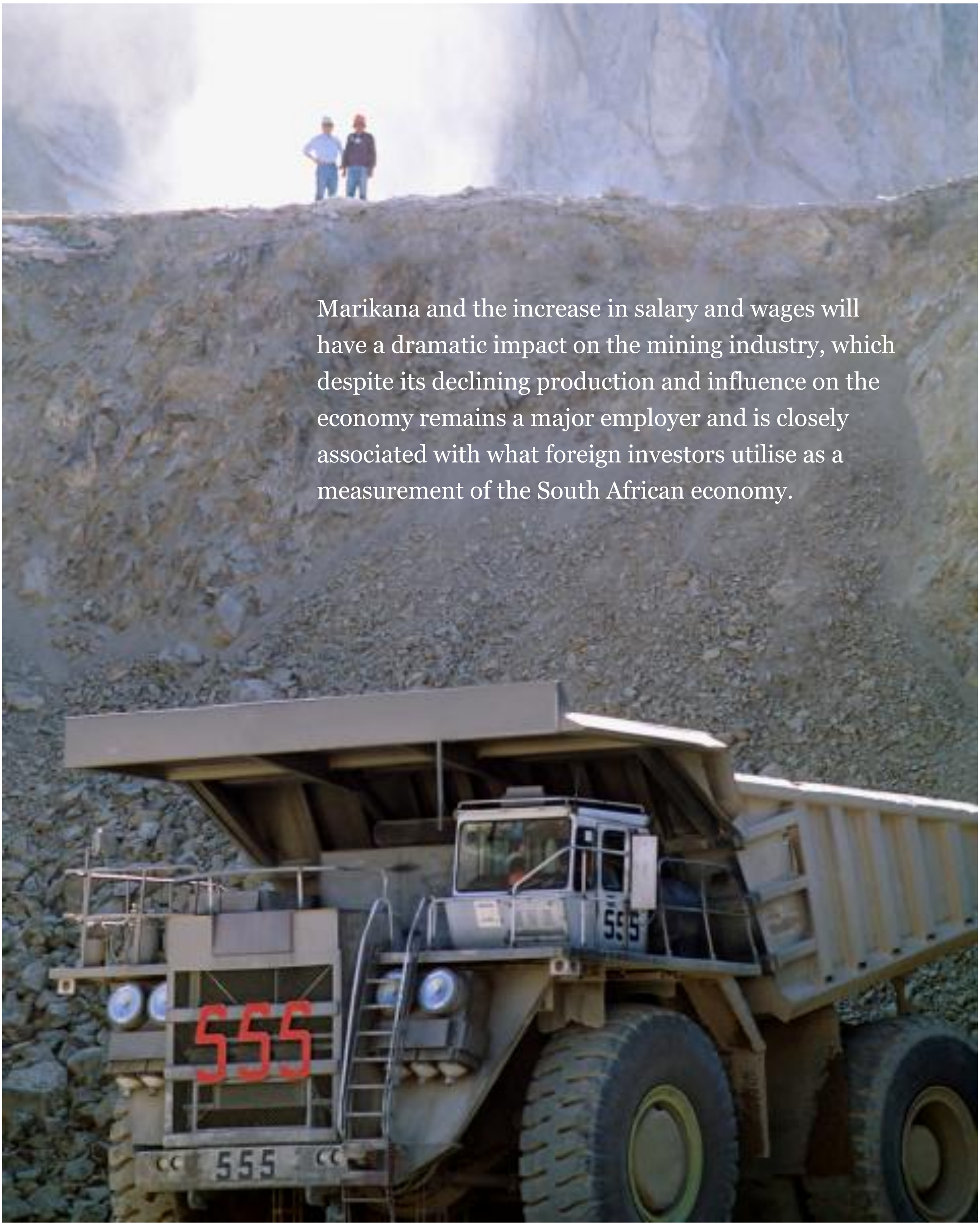
Average Total Guaranteed Package Percentage Increments Mining Industry Sector[1]						
01/09/2007 – 01/03/2012						
Employee Category	**2007**	**2008**	**2009**	**2010**	**2011**	**2012[2]**
Executives	9.9%	10.5%	8.00%	8.2%	8.8%	8.3%
Management	9.9%	10.9%	8.00%	8.2%	8.8%	8.1%
Key Specialists	11.7%	10.9%	8.17%	8.2%	10.7%	8.9%
General Staff	9.9%	10.8%	8.17%	8.3%	8.5%	8.4%
Unionised Staff	10.8%	11.3%	8.78%	8.4%	8.9%	8.3%
Total Average Lift to Payroll	10.0%	10.7%	8.28%	8.3%	8.8%	8.4%
Average Consumer Price Index	6.89%	11.53%	7.7%	4.29%	4.98%	5.7%[3]

What is also evident is that increases in the Unionised Staff and Key Specialist Categories exceeded the average lift to payroll in the Mining Industry sector with 0.3 to 0.68 percentage points over the 5 year period. In addition the 2010, 2011 and 2012 unionised increases were substantially higher than the average CPI percentages during the same corresponding period, and this does not take the recent increases granted by Lonmin into account.

[1] *Source: PwC Remchannel bi-annual Salary and Wage Movement Survey*

[2] *Projected as at March 2012*

[3] *Year to date Average CPI as at August 2012*



It is anticipated that this trend will continue well into the future due to the influence that Marikana and union negotiations and demands will have on increases in wages in the Mining Industry sector. The events of the past two months will most certainly also influence the South African Manufacturing Industry sector and all other sectors where union representation and organised labour has a presence.

Impact of economic trends on remuneration

Predicted South African pay adjustments

Domestic business continues to be influenced negatively by global economic events.

The Bureau for Economic research reported that the outlook for South African GDP growth has deteriorated over the past three months. Specific domestic issues including declining consumer demand and heightened political uncertainty has impacted economic growth forecasts for the last quarter of 2012. Global factors such as the further deterioration in the EU debt crisis, the sharp fiscal contraction in the US and a recession in the world's largest economy continue to provide the most important risks to the South African economy. Whether this will impact the South African pay adjustments remains to be seen.

The predicted average salary increases for the National All Industry sector in the August publication of REMchannel® range between 6.7% and 8.5% for the next 12 months. This is a continuation of the trends reported during March 2012 and the median increases are approximately 1.5 percentage points above headline consumer inflation.

General staff				
Remuneration Structure	Percentage Increases			
	Last 12 Months		Next 12 Months	
	Mean	Median	Mean	Median
Basic Cash	7.1	7	7.5	7
Flexible Package	7.2	7.3	7.2	7
Total Package	6.8	7	6.8	7

The actual increases on an annual basis continue to be higher than the budgeted increases. Over the past 12 months the average increases for same incumbents in the REMchannel® database has been 10.33% as indicated in the following table. Not surprisingly the unionised staff category is almost double the average consumer price index. This can be attributed to the fact that increases are granted on basic salary and that other allowances are negotiated separately. In addition the medical inflation will be carried by the organisation and this is more often than not higher than inflation.

Hierarchical Categories	Same Incumbents Guaranteed Package Percentage Adjustment 1 August 2011 to 1 August 2012
Executive Management	9.1
Senior Management	9.4
Middle Management	10
Junior Management	9.7
Entry Level Management	9.7
Supervisory	9.6

Hierarchical Categories	Same Incumbents Guaranteed Package Percentage Adjustment 1 August 2011 to 1 August 2012
Senior Clerical	10
Clerical	11
Semi Skilled	12.1
Unskilled	12.7

The results of the September 2012 Salary and Wage Movement survey comprising of 53 participants will be released early October 2012. Should you wish to obtain a copy of the survey, please contact Louna Robbertse at louna.robbertse@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.

Increasing focus on asset management regulation

Developments from Europe's regulators July 2012

On 28 June 2012 the European Securities and Markets Authority (ESMA) published a consultation paper outlining its proposed guidelines on remuneration policies under the Alternative Investment Fund Manager Directive (AIFMD).

The guidelines are largely aligned with those previously developed for implementation of the European Union (EU) Capital Requirements Directive (CRDIII) remuneration requirements which apply to banking organisations and other firms including some regulated asset managers. On 3 July 2012 the European Commission (EC) published proposed amendments to the text of the Undertakings for Collective Investment in Transferable Securities (UCITS V) Directive. These included the incorporation of remuneration rules almost identical to those set out in the AIFMD. The AIFMD is aimed specifically at the alternative investment management industry. It extends the scope of existing EU remuneration regulation to:

- managers of hedge funds
- real estate and infrastructure funds, and
- private equity houses.

UCITS V is expected to impose similar rules for managers of UCITS funds. It is good that the EC is taking a consistent approach to applying remuneration regulations across different directives. But, these regulations were first drafted to apply primarily to large corporate banking organisations. The principle objectives of both AIFMD and UCITS V are very different to CRDIII but there's been virtually no tailoring of the remuneration provisions to acknowledge these differences. To obtain a copy of the thought leadership please contact René Richter at rene.richter@za.pwc.com.

Evaluation of specialist positions

Evaluating specialist positions that have very limited or no financial influence can be very challenging.

Since implementing REMeasure®, our on-line job evaluation system, a number of clients have asked us to review the financial influence, or lack thereof, for specialist positions. We are pleased to announce that we have, in conjunction with Dianne Auld, designed a sub-set of questions which will measure and allocate the appropriate scores specifically to the E and F band positions. A number of our clients who have these specialist jobs have started testing the evaluation of these jobs and we have received tremendously positive feedback.

The system will ask the evaluator the following questions if no significant financial responsibility is part of the role:

Question	Answers
In what way does the job holder influence practices, policies or strategy and at what level?	Has a significant influence on or sets practices or policies for a division or business unit
	Has a significant influence on or sets practices or policies affecting other areas of the business
	Has a significant influence on the strategic direction of a division or business unit
	Has a significant influence on the strategic direction of more than one division or business unit
	Sets the strategic direction of an entire division or business unit
	Sets or participates in setting the strategic direction of the whole organisation

The major benefit in answering this question is that the user is allowed to answer more than one question and only the highest score will be allocated to the final evaluation. In addition, influence, both strategic and financial, will be weighted significantly higher at the E and F level bands compared to the other Paterson levels.

We also continue to certify clients, our reward consultants and the REMchannel® key account managers to ensure that they can add maximum value during the job matching process as part of the collection methodology.

If you would like to see REMeasure® in action or attend the monthly scheduled certification courses, please contact Anita Wing at anita.wing@za.pwc.com, or Minda Botha at minda.botha@za.pwc.com. Please note that terms and conditions apply.

REMchannel® African expansion

The long awaited Kenyan publication of REMchannel® will be concluded by the first week in October 2012.

For the past 12 months we have made changes to the system to accommodate the unique reward environment in Kenya, trained consultants in the collection of the survey data and secured more than 35 participants.

The first publication comprising of 23 companies will contain in excess of 5 000 data points. We are anticipating that there will initially be sufficient data for a quartile analysis for more than 50 jobs in addition to grade based information up to Paterson E Upper. A second publication incorporating the remaining participants is scheduled for the end of November and we will provide our clients with an update on the progress, number of data points and participant lists once concluded.

Some of the data already collected provides valuable insight into the Kenyan market. The majority of the current participants base their remuneration reviews on basic salary with only 10% of the participants indicating that they manage remuneration on a total package basis.

As in South Africa the unionised staff increases are on average 1 percentage points higher than for the other staff categories as can be seen from the table below.

Remuneration Structure	**Executive Percentage Increases**			
	Last 12 Months		Next 12 Months	
	Mean	Median	Mean	Median
Basic Cash	8.9	8.4	7.7	8
Total Package	4.7		6	

Remuneration Structure	**General Staff Percentage Increases**			
	Last 12 Months		Next 12 Months	
	Mean	Median	Mean	Median
Basic Cash	9.6	8.7	8.1	8
Total Package	6		6.5	

Remuneration Structure	**Unionised Percentage Increases**			
	Last 12 Months		Next 12 Months	
	Mean	Median	Mean	Median
Basic Cash	10.5		8.9	
Total Package	11		10	

If you have operations in Kenya and would like to participate in the survey please contact Carol Shepherd at carol.shepherd@za.pwc.com.

Remuneration Report Award

This is the second year that PwC is sponsoring the SARA* Best Remuneration Report Award. *The past few years' remuneration disclosure has gained a lot of traction in South Africa and we have seen remuneration reports published of the highest standards. We therefore encourage you to nominate your company's remuneration report for this prestigious award.

This year remuneration reports which were published prior to 30 June 2012 and in respect of financial years ending on or before 31 March 2012 are eligible for nomination. The judges of this prestigious award are known for their contributions to governance and this year the panel will consist of:

Prof Mervyn King, Ms Ansie Ramalho (IOD Chair) and Mr Graeme Brookes (JSE).

If you need any further information please contact Julia Fourie at julia.fourie@za.pwc.com or alternatively log on to the SARA website www.sara.co.za. You can also contact Marisa or Melindi at SARA on +27 11 061 5000 and they will provide the necessary information.

Annual Reward Awards

Do not miss the most prestigious event of the year! We will be unveiling the winners at the Reward Awards gala evening on the 13th October 2012. To find out more about this event please visit the SARA website at www.sara.co.za.

SARA and PwC Remchannel will be hosting the 10th year of the SARA Reward Awards. Over the past nine years we have recognised some great legends in the industry proving that we truly can compete with the best globally.

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.

- Salary and Wage Movement Survey (September 2012)
- Global Equity Incentives Survey (October 2012)
- Talent Mobility 2020 and beyond (November 2012)
- Short Term Incentive Survey (1st 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.