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FACT SHEET

RECENT TRENDS ON **REMUNERATION** GOVERNANCE

INTRODUCTION

The employment context is continuously changing due to economic pressures which affect the majority of organisations and employees. There has been a shift in skills set since the inception of globalisation. Talent retention has been reported as a significant challenge for organisations operating in a competitive environment. The competition in the labour market also causes rivalry. Competing for employees with the required skill set, attracting and retaining employees with expertise has emerged as the biggest challenge for human capital managers. Captains of industries are feeling the pressure to digitally transform their organisation with specific reference to remuneration. Organisations need to ensure that they pay attention to compensation issues since this affects their revenue and organisational performance. The cost of labour turnover cannot be overlooked as the majority of employees leave their jobs to seek better paying jobs elsewhere. Rewards are one of the significant elements to motivate employees for contributing their best effort to generate innovative ideas that lead to productivity within an organisation. In ideal situations, it is necessary to reward those who perform well and address substandard performance. Remuneration specialists must recognise what employees perceive as meaningful rewards. Pay is usually the first and sometimes the only reward most people think about. However, rewards should be viewed in the larger perspective as anything employees value. Appropriate measures need to be in place to control the issue of fair and ethical pay for employees. Business and government are the important stakeholders in making sure that there are policies and procedures that address pay inequalities. Taking into account fair and ethical remuneration.

Injustices of the past have affected the remuneration system for most organisations since there wasn't any appropriate measures to control discrepancies in remuneration. Income inequality continues to be a highly debated topic both within South Africa and globally, with widespread concern regarding fair and equitable pay from executives to general workers. There is a common perception of an unnecessary large gap between CEO/executive pay and general staff pay and that this gap is widening every year. Executive remuneration has been in the spotlight in the past few years where there was no justification on their payments. This brings a concern of good governance and free-will to implement the code of good ethics when determining the pay. These have crippled some organisations since they cannot account to shareholders. In line with international developments, remuneration is receiving far greater prominence in King IV" (Deloitte). A need for disclosure of remuneration therefore becomes important.

Also, as per Paragraph 32, Principle 14 of the King IV Report, the governing body should ensure that remuneration is disclosed by means of a remuneration report which should be in three parts:

1. A background statement;
2. An overview of the main provisions of remuneration policy; and
3. An implementation report which contains details of all remuneration awarded to individual members of the governing body and executive management during the reporting period. (PECS-Remuneration governance and remuneration report disclosure).

Therefore, it is against this background that this fact sheet aims to take a holistic view on South African Remuneration Governance and how to maintain fair and ethical compensation and rewards practices.

THE ETHICS OF REMUNERATION PRACTICES

One of the most sensitive issues in the workplace is remuneration of employees. Proper care should be considered. Remuneration should be managed ethically in line with applicable legislations, processes, policies and relevant structures should be in place. Therefore, a Remuneration Committee with a clear remuneration policy should be in place. These measures are there to safeguard remuneration inequalities while ensuring fairness in pay for employees. Additionally, these measures also minimise extent to which remuneration decisions are seen to be unfair, discriminatory. Remuneration ethics enhance transparency in pay decisions and processes. In order to ensure fair and ethical remuneration King IV states that a remuneration policy is necessary. It further states that the remuneration policy should create value for the Company over the long-term and should be aligned with the Company's business strategy. Such a policy would serve as a guiding principle in determining a fair, equitable, balanced and market related remuneration framework. King IV defines fairness as "equitable and reasonable treatment of employees".

Compensation policy

Policies must be formulated before a successful compensation system can be developed and implemented. Compensation policies are the collection of rules and procedures that govern the calculation of salary and benefits that an organisation provides to its employees. Employers regularly monitor their compensation policies to ensure they are paying employees in a fair, equitable manner and as competitively as possible when compared to other businesses in the industry. It is necessary to develop a compensation policy since it can achieve several purposes, assisting in recruitment, job performance and overall job satisfaction. From a corporate governance perspective, Principle 2.27 of King III recommends that "shareholders should approve the company's remuneration policy.

Compensation policies should also be in line with relevant legislations. Additionally, compensation policies should give a guideline to compensation practitioners in paying employees in a fair and equitable manner. The policy should also indicate that a rate of pay for each position should be based on relevant competitive markets and the level of contribution of the position. It should also ensure that a pay decision is fair, consistent and equitable. Ultimately, the remuneration policy should strive to attract and retain talent. The policy should ensure that compensation is based on individual performance and is aligned to the organisation strategic objectives. Over and above the policy, Remuneration Committee is also becoming a trend in reward governance systems. This recognised means of governance helps in ensuring ethical decisions are adhered to when deciding on remuneration packages, for different work levels.

The Remuneration Committee (RC) is one of the sub-groups of the board whose duties are to scrutinise the decisions of the board which concern: rewards, salary, bonus, share options, retirement payments, commission, company cars, medical subsidies and participation in profit-sharing with shareholders, as well as advantageous pension contributions for corporate executives. This management method has shown to have a positive impact on the profitability of UK financial institutions (Agyemang-Mintah, 2016). The study also indicated that the establishment of an RC by the Board is positively interrelated to the performance of a firm as measured by Return on Assets (ROA) and is also statistically significant in respect of the Market Value (MV) of the firm, and that it helped to have a positive impact on the profitability of UK financial institutions. Based on the research such as the afore-mentioned one, the RC can be another means of good governance for organisations on remuneration decisions.

LEGISLATIVE FRAMEWORK GUIDING REMUNERATION IN SOUTH AFRICA.

Remunerating employees has become one of the most demanding challenges facing management in South Africa. Controlling salaries has become a critical problem for companies operating in the competitive environment. The issue of pay inequalities has been a reality for the past decades. However, government has also put measures in place to control the remuneration of employees. It is a major objective of any compensation system to comply with government legislation. The government has affected compensation by legislating pay levels, hours of work, pay for overtime and holidays and most importantly non-discriminatory pay practices. The Basic Conditions of Employment Act, No. 75 of 1997, as well as Basic Conditions of Employment Amendment Act, No. 11 of 2002, have a direct impact on an organisation compensation strategy. Additionally, organisations are also obliged to terms of the Employment Equity Act 55 of 1998 (as amended) ("the Employment Equity Act") and the Regulations in terms thereof, specifically the principle of Equal Pay for work of Equal Value. King IV Report on Corporate Governance ("King IV") complies with applicable legislation including but not limited to the Companies Act 71 of 2008 as amended. There are some considerations that need to be considered which include the provisions in the administration of the compensation system.

1. **Basic Conditions of Employment Act, No. 75 of 1997 lays downs the following provisions in terms of:**

- When and where payments are to be made
- The written particulars that need to be included in a payslip
- What deductions are permissible and how much can be deducted
- Payments for overtime, weekend work and public holidays and
- Payments made at the termination of a contract.

2. **The Employment Equity Amendment Act, 47 of 2013 [EEA] and the Employment Equity Regulations, 2014 [EER] came into effect on 01 August 2014, specifically the principle of Equal Pay for work of Equal Value.**

Making Pay equity a priority

In 2017, the World Economic Forum compiled a report based on gender-based pay disparity in 144 countries around the world. It focused specifically on four major sectors: health, economics, politics and education. The report revealed that South African men make approximately R6600 more than women monthly. Additionally, the report further revealed that pay inequality is incredibly problematic for various reasons. Gender parity is fundamental to whether and how economies and societies thrive. Subsequent to the **Employment equity Act 55 of 1998** amendments, on the 01st of June 2015, the Minister of Labour published the Code of Good Practice relating to *"equal pay for work of equal value"*. The code was developed to provide practical guidance on how to apply the principle of equal pay for work of equal value in the workplace and eliminating unfair discrimination relating to pay or remuneration. This regulation has resulted in most of South African companies reviewing and re-evaluating their job profiles, conducting job evaluations, reviewing existing performance processes and introducing job grading in order to ensure that justifiable and transparent process are in place to support. Employment Equity does provide for protection of employees and maintains that no one can be discriminated against based on race, gender, age, language and sexual orientation. The principle of equal pay for work of equal value has been adopted in our employment laws to eliminate workplace discrimination. In terms of determining equal work, it states that the work performed by an employee:

- Is the same as the work of another employee of the same employer, if their work is identical or interchangeable

- Is substantially the same as the work of another employee, if the work performed by the employees is sufficiently similar that they can reasonably be considered to be performing the same job, even if their work is not identical or interchangeable
- Is of the same value as the work of another employee in a different job.

Factors that could influence any differentiation in pay include:

- Seniority or length of service
- Qualifications, ability, competence or potential above the minimum acceptable levels
- Performance, quantity or quality of work
- Demotion due to restructuring or another legitimate reason
- Temporary employment to gain experience and training
- Shortage of relevant skill
- Market related value for the job
- Any other factor that is not unfairly discriminatory.

But as the statistics show, there is still a massive gender pay gap, which can only mean that companies still discriminate and perpetuate inequality. However, the amendments of the above stated HR processes still did not provide solutions to existing salary disparities. This meant that South African Employers had to adopt remuneration strategies that would allow them to address and close existing salary gaps and gender parities over a specific period.

3. The National Minimum Wage Act

In November 2018 the first National Minimum Wage was introduced in South Africa. President Cyril Ramaphosa proclaimed the effective date for the recently approved National Minimum Wage (NMW) as being 1 January 2019. Schedule one Section 6 (6) of the National Minimum Wage Act sets the minimum wage at R20 per hour, Farmworkers are entitled to a minimum of R18 per hour, and Domestic workers are entitled to R15 per hour; whereas workers on expanded public works program are entitled to a minimum of R11 / hour. *Parliamentary Committee corrects errors on National Minimum Wage Act.*
According to an article by People Success Africa, Weekly Industrial Relations Update, dated Sunday 17 February and published on the 24th February 2019, www.peoplesuccessafrica.com "The Parliament's portfolio committee on labour has moved to correct a technical error in the National Minimum Wage Act, which came into effect on 1 January. It has introduced an amendment to the act to fix a cross-referencing mistake that has bearing on workers challenging instances where benefits or working conditions were unilaterally changed in reaction to the new law. But the committee emphasised that the pending amendment did not mean the new law was suspended". "The law came into force on 1 January 2019. However, the 1 May 2017 "retrospective" implementation of a section that states it is an "unfair labour practice for an employer to unilaterally alter wages, hours of work or other conditions of employment in connection with the implementation of the National Minimum Wage", ended up being cross-referenced to the wrong clause in the Act. This means workers whose benefits or working conditions have been changed unilaterally in reaction to the new minimum wage law may have to wait until parliament fixes the error before they can act against offending employers. The protection was to have been backdated to 1 May 2017 but was accidentally omitted in the final version of the act signed into law by President Cyril Ramaphosa".

4. Merit Increase and Bonuses Approach

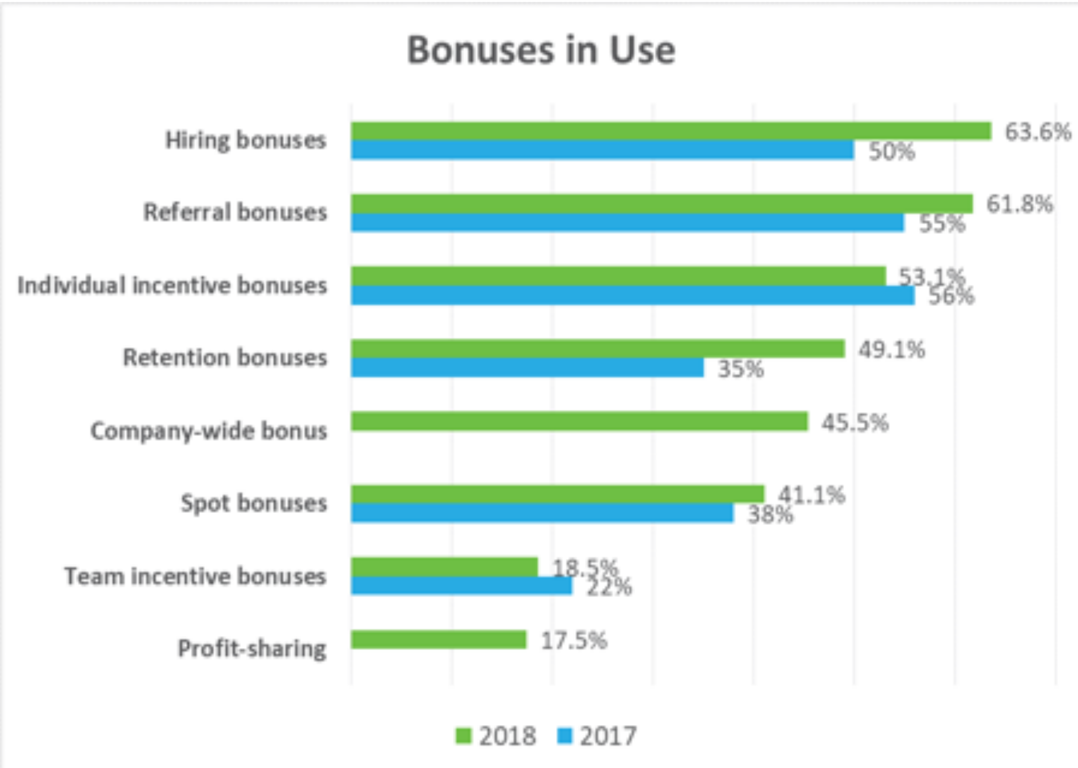
Merit pay rewards high performing employees with additional pay in order to retain talent. Top performers continue receiving high salary increases and performance bonuses. In the past, South African Companies have been locked in substantive agreements that guaranteed bonuses and 13th cheques as a way of attracting and retaining Employees. However, most companies have been negotiating out of such agreements and introducing merit increases and bonuses using fair and equitable performance management processes. Market pay rates for many jobs have dramatically outpaced median salary increase budgets, meaning that for many employees, opportunities for pay progression outside your organisation are much larger than the opportunities they see within their organisation.

5. Variable Pay

Variable pay types can vary according to the payout period, the employees that are eligible, and the metrics that employees are measured against. Variable pay types are divided into discretionary bonuses and non-discretionary bonuses. Discretionary bonuses, such as **spot bonuses**, are awarded on an ad-hoc basis to employees who demonstrate exceptional performance. **Nondiscretionary bonuses**, such as individual **incentive bonuses**, are awarded when employees, teams, or the organisation as a whole meets specific, pre-defined goals and objectives. According to Salary.com research, 77% of companies in the U.S. are using variable pay programs as part of their total rewards packages, with an additional 9% of companies reporting they definitely will or could adopt a variable pay plan within the next two years. South African companies also took part in this global survey. About 84% of organisations surveyed indicated that they plan to give base pay increases this year. The average increase isn't expected to change much from 2017, with 73% of employers estimating an average of 3% or less. The highest base pay increase given to an employee (excluding promotions) was greater than 10% for 40% of organisations, with 13% of organisations giving an increase that was 20% or higher. About 71% of organisations offer some form of variable pay like bonuses or commissions. According to PayScale, a one-size-fits-all approach to allocating increases doesn't tend to be very motivating to employees, especially to high-performing employees. In general, it seems that more organisations are relying on variable compensation to drive the types of behaviours they want to see among their employees. Top-performing organisations tend to consider pay to be an ongoing dialogue with employees, not an annual event that comes and goes.

6. Performance-Based and Non-Performance-Based Bonuses

As organisations look to maximise their variable pay budgets, they can choose from a vast array of different performance- and non-performance-based bonus vehicles. Most organisations employ more than one bonus type, with 58.2% reporting that they use between three and five of the eight performance and non-performance bonus vehicles. A recent survey by Salary.com revealed the following bonuses.



7. Retention Bonuses

The percentage of organisations that employ retention bonuses, which are designed to reward tenured employees for their service, has risen by more than 14 points since last year. Though typically awarded for 5 or more years of service, today's retention bonuses are appearing earlier and more frequently in the employee lifecycle, in order to maximise their effects.

8. Individual, Team, and Company-Wide Incentive Bonuses

Individual incentive bonuses were the most popular variable pay type in 2018, leveraged by 56% of organisations in our survey. These bonuses have increased in popularity since last year, as more organisations look to reward top performers for their individual, measurable contributions to the business. Team incentive bonuses, on the other hand, ranked second-to-last among all bonuses in 2018, and have decreased in popularity in recent years. This may be because companies are moving away from small-group incentives, or it could be because organisations are now rolling team-level performance into calculations that determine individual-level bonus payouts.

9. Hiring and Referral Bonuses

Hiring and referral bonuses – the two non-performance bonus types on this list – were among the most widely used bonus types in the survey. In today's talent market, where top talent is hard to come by, it is perhaps no surprise that organisations are going above and beyond to incentivise employees to join the organisation and to refer their friends and colleagues to join as well. Hiring bonuses help secure top talent outright by leveraging a one-time payment to increase the compensation package offered during the recruiting process. These bonuses are especially helpful for securing talent to fill hot jobs – new or emerging jobs that command a premium in price due to their specialised nature, or existing jobs where the demand for talent far outstrips the supply.

10. Benefits and Perks Trends

Historically, majority of South African Companies had adopted basic salary + benefits; and the Cost to Company remuneration was more used by large organisations. However, the legislative changes have resulted in increased salary costs for Employers and have seen most Companies converting to the CTC approach, and Employees being given an option to build up their salary components. The CTC approach enables Companies to better control their overall employment costs. However, it is imperative that Employers make sure that they do not unilaterally change existing conditions of employment without any extensive consultations.

11. The Labour Law Amendment Bill

The labour Law Amendment Bill has been passed by parliament and amends the BCEA to make provision to Paternity /parental leave, Adoption leave and Commissioning parental leave. This means that there is a need for Employers to amend their leave Policies and update their HR software systems.

11.1 Paternity / Parental Leave

i. Employees who do not qualify for maternity leave are entitled to 10 consecutive days' paternity / parental leave on birth of their Child, an adoption order is granted, or the child is placed in the care of a prospective adoptive parent by a competent court. Payment of such leave is paid in accordance with the provisions of the Unemployment Insurance Act, 63 of 2001.

11.2 Parental Adoption and Commissioning parental leave

i. Employees are entitled to 10 consecutive week's parental adoption / commissioning parental leave when the child is born, an adoption order is granted, or the child is placed in the care of a prospective adoptive parent by a competent court.
ii. The Child must be 2 years old or younger for adoptive parents who qualify for parental adoption leave. Only applicable to one parent who is the primary care giver.

Pay Transparency

South African organisations are concerned about their employees' understanding of their compensation and benefits package. While 91% of companies communicate each individual's compensation and benefits package to their employees, a staggering 65% of companies rate the understanding of these packages as low. AON Employee Benefits, the global talent, retirement and health solutions business, has released the findings of its EMEA Benefits Communication Survey for 2016. The 2016 results show that 91% of organisations in South Africa were communicating on compensation and benefits packages, with the main goal of developing engagement and retaining talent. This is a marked increase from the 70% recorded in 2015 of companies that communicate to their employees on the topic. The real shift, however, is in the manner and efficacy of such communications, which are receiving more focus and attention than before.

"It is essential that companies engage a diversity of communication channels from traditional print media and one-on-one engagements, through to multimedia channels and digital platforms, to have maximum impact and cater for different employees".

South Africa's survey results found the following:

- 91% of employers across South Africa currently communicate their employee compensation and benefits packages
- 65% of surveyed companies consider their employees' understanding of its compensation and benefits policy to be low
- 52% of organisations communicate several times a year, showing a marked increase on the previous year, when 29% said the same thing
- Last year the main objective was to respond to legal requirements, while this year companies declare they communicate to manage costs to the company and/or benefits flexibility
- 42% of organisations use digital platforms as their preferred communication channel
- 26% of surveyed companies will use total reward statement as their method of communication in future, with 22% using the employee handbook and 22% utilising face to face presentations in future
- In future, companies anticipate continuing to use employee handbooks, while supplementing these with email communications and online benefits portals
- 70% noted that they do not have a dedicated budget devoted annually to their employee benefits communications
- Mirroring views expressed globally throughout EMEA, the largest part of companies in South Africa does not use an external provider to communicate their benefits package, with 71% of South African organisations managing benefits and compensation communications in-house.

CONCLUSION

It is important for organisations to effectively communicate remuneration and benefit packages, using a simple, straight forward and easy-to-use communication across all media channels such as print, e-mail and digital platforms. Organisation's communication strategy needs to provide a clear explanation of complex topics and needs to be aimed at helping employees to understand their options and make the right decisions. A personalised approach is always helpful in addition to providing employees with the means to put the knowledge that they derive from communication into action.

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This Fact Sheet was written by:

Dr Calvin Mabaso: University of Johannesburg

Contributions by: Given Seolwana: VHG HR Payroll Consulting

Contributions and Editing by: Kgomotso Mopalami: SABPP Head: Research and Innovation

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