

## EMPLOYERS UNDER PRESSURE

“CPI RISING FASTER THAN BUDGETED INCREASES, HOW WILL CORPORATE SA DEAL WITH POTENTIAL RISING COSTS?”

## WHY ARE EMPLOYEES QUITTING?

“FLEXIBILITY IS THE NEW EMPLOYEE BENEFIT MOST VALUED BY EMPLOYEES”

# THE ROLE OF THE EMPLOYER IN RETIREMENT FUNDING

“OUR SOCIAL EXPERIMENT EMPHASISED THE CRITICAL NEED TO ENSURE THAT RETIREMENT FUNDING PROVIDES THE OUTCOMES EMPLOYEES NEED”

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**A**s we settle into the 'new' normal, most human resources and reward professionals face far greater challenges than before. Emerging themes and constructs such as the hybrid work model, the war for talent, the Great Resignation and stagflation are making it even more complex to navigate the rough terrain of employee value proposition (EVP) and retention of key skills.

Global research shows that changing workforce characteristics have elevated the importance of recruiting as well as talent and performance management. While some HR executives have transformed their administrative-focused organisations and regionalised departments to improve the strategic value of their operational and functional counterparts, many organisations still fall short of true 'transformation'. And while some organisations focus on efficiency, strategic talent-management issues go unresolved – with significant opportunity cost to market growth and other corporate initiatives.

Following transformation, what does your HR team focus on more: the business or administration? We suspect that in many cases it is the latter. If this is the case, changes are needed in how HR drives business performance. This is especially true given the current economic climate. Now is the time for transformation to ensure future sustainability.

In this edition of the HR Quarterly, we provide insights into the challenges that our clients are facing and explore some trends from our most recent research, which takes EVP into account.


We trust that the contents will be of value to you. Should you need any assistance, please give us a call to arrange a discussion.

**Yours in reward**



*Rene Richter*

**MANAGING DIRECTOR : REMCHANNEL**



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**AS THE GREAT  
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# EMPLOYERS UNDER **PRESSURE**

AS SALARY INCREASES FALL BELOW INFLATION

BY RENÉ RICHTER

**S**outh African employers expect average wage increases of 5.4% to be awarded in the next rolling 12-month period. This will be below the inflation rate and will put pressure on companies to find new ways to keep their staff happy in the face of record labour turnover. That average wage increase figure is based on the bi-annual April 2022 Salary and Wage Survey, which clearly indicates that salary budgets are potentially no longer sufficient to meet evolving employee demands.

Rising costs linked to escalating inflation – exacerbated by increasing fuel prices and food shortages due to the Russia-Ukraine war – have created a perfect storm for employers as workers return to the office. The South African Reserve Bank increased the repo rate by 50 basis points in May, the steepest increase since 2016, taking the bank's key rate to 4.75%.

The prediction for an overall average lift to payroll is 5.24% on a total guaranteed package basis across industry sectors for the next 12 months. By comparison, South Africa's benchmark consumer price index (CPI) held steady at 5.9% in April according to Stats SA. The historical average CPI for 2021 of 4.5% presented a more positive view in terms of the differential, but reward professionals need to be guided by the current information, which shows a worsening of the gap between increases and CPI.

## THE GREAT RESIGNATION CONTINUES

The pressure on salaries presents a new challenge to employers as they look to retain and attract talent while remaining competitive. This comes amid the continuing effects of the Covid-19 pandemic that has prompted millions of workers locally and abroad to rethink work and its role in their lives.

The Great Resignation is a global phenomenon and refers to a US-led trend of workers quitting during the height of the Covid-19 pandemic opting instead for stimulus packages. It has sparked similar movements worldwide – including in South Africa – as workers seek better opportunities and flexibility.

According to the survey, 36.4% of the labour turnover was a result of resignations over the past 12 months. Resignations continue to be at the highest level of all the termination categories that we have seen over the past 10 years, despite the pandemic and the economic uncertainty. The total sample of employees numbered more than 618 000 people. This means that, at an average turnover rate of 17.7%, just under 40 000 employees resigned from 82 companies.

The situation is untenable, and it will force employers to reconsider their employee value proposition (EVP) and retention policies if they are to keep their brightest staff.

While more than half of participant companies did not measure the replacement cost of labour staff turnover, the figure was staggering. Assuming that most are professional staff at an annual salary of R600 000, and that it conservatively costs one annual salary to replace these workers, it would have cost these companies a staggering R23.9 billion.

The attraction and retention of critical skills are the most difficult challenges facing businesses. The survey found that human-resource professionals have experienced the highest turnover. The impact on this crucial business function could be why the resignations are at a high percentage. Sales and marketing professionals were second in line, which could be attributed to the greater focus on marketing to ensure organisational growth.

## FLEXIBILITY IS THE NEW EMPLOYEE BENEFIT

Remchannel also conducted a snap survey to understand how employees feel about returning to the office after the government lifted South Africa's State of Disaster. The results revealed a clear desire for a work-life balance, including working from home. The survey found that most of the participants (70%) had implemented a hybrid working model and had not attempted to return to a pre-Covid office model.

However, the survey clearly indicated that 35% of employees are not happy to be back at the office and 28% resist returning to the office – even if it is under a hybrid model. The survey found that organisational culture and key elements such as improved communication, trust and empowering workers have quickly become a prerequisite for employees.

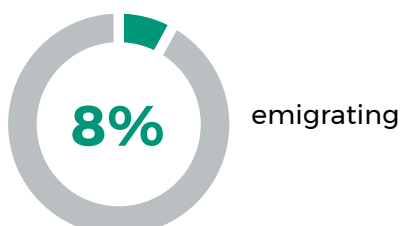
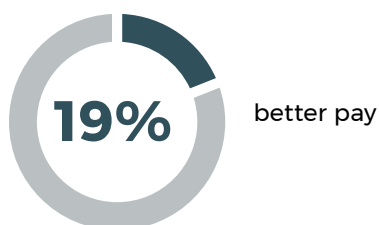
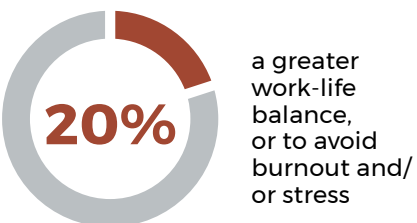
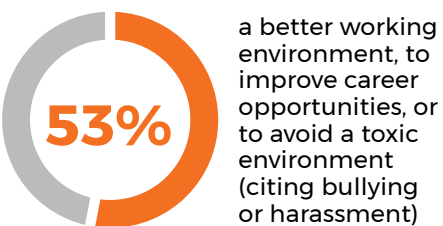
Staff are no longer thinking about the consequences of terminating employment, especially if their skills are in demand. Most employees also believe that their productivity has improved while working from home. This is the second-highest selection made by the participants in this survey and is directly influenced by the number one reason: less time spent travelling to/from work.

Fear of contracting Covid-19 is relatively low on the list of concerns around returning to the office. On the other hand, employers believe that while the pandemic forced a flexible model, that model is not sustainable. The single biggest reason cited by employers in this survey is the loss of culture and working relationships between team members, followed by challenges onboarding new staff.

While these are certainly valid concerns, perhaps the question should be how the flexible work model can be adapted to overcome these challenges. Businesses should invest in exploring what critical competencies employees will need to collaborate digitally, and they should be prepared to alter and improve employee- experience strategies to remain competitive.

### WHY THEY QUIT

Reasons for resignation include the following:



ATTENTION BENCHMARKING AND JOB EVALUATION

**MORE  
IMPORTANT  
THAN EVER  
IN THE CURRENT  
ECONOMY?**



**'THE REMEASURE SYSTEM KEEPS AN AUDIT TRAIL OF HOW THE ROLES CHANGED. IT ALLOWS FOR EASE OF COMPARISON BETWEEN ROLES. THE TOOL IS EASY AND SIMPLE FOR ALL PARTIES INVOLVED IN THE PROCESS. WRAP THIS IN EXCELLENT SERVICE AND IT IS A NO BRAINER.'**

– MICHELLE WARD, BESTMED MEDICAL SCHEME

**T**here appears to be a greater emphasis on the sizing of jobs to measure internal and external equity. This ensures fair pay while better managing an organisation's largest cost: its salary and wage bill.

Benchmarking and job evaluation are the two tools that reward professionals employ in the effective management of remuneration – they have formed the cornerstone of many organisations' reward philosophy for decades.

However, even prior to COVID-19 job evaluation seemed to become less relevant and benchmarking was used to a lesser extent as organisations entered the war for the best talent. Many of our clients simply paid what they needed to pay to attract and retain key staff. This is not unusual, as the basis for a free economy is supply and demand. However, it created anomalies in the traditional pay structure – and of course employees questioned the fairness of the pay practices.

Then came the pandemic. Employers started cutting costs and the salary and wage bill was the first to be reviewed. Many businesses realised that their pay structures were almost obsolete and that the pay ranges within the hierarchical levels (or pay grades) had increased to such an extent that it would take decades to fix the problem.

Although organisations still need to attract and retain the best talent, sanity is starting to prevail. The first step in addressing pay structure anomalies is to evaluate the jobs in the organisation. This is a lengthy process

and takes dedicated resources to complete – if it is not done consistently, it can do more harm than good. Once the process has been completed the pay scales are reviewed depending on the reward philosophy, which must of course be aligned to the business strategy. The comparator market and quartile anchor point are identified, the new pay structure designed and employees are plotted against the new scales.

At this stage, most reward professionals are horrified by what they find! Pay for the same graded jobs sometimes vary up to 500%. Just imagine what a cost-of-living increase would do to these percentages over time, and how it would affect your employees' perception of fair pay. How will it impact the salary and wage bills of South African companies in an economic climate where all costs are being reviewed, and is it sustainable?

At Remchannel, our clients are increasingly recognising the importance of benchmarking and job evaluation as the tools to manage remuneration costs effectively and create an environment of fair pay.

Remchannel's REMeasure system provides the ability to effectively manage internal equity, but it's much more than just a job-evaluation tool. To test its effectiveness, contact Theresa Kite at [theresa.kite@remchannel.com](mailto:theresa.kite@remchannel.com).



**CLICK HERE** to view testimonials from companies like Danone and Impala Platinum.



# THE POWER OF COMPETENCY-BASED PERFORMANCE MANAGEMENT

**T**raditional performance-management systems have evolved significantly. While there is still a need for businesses to assess employee performance, Covid-19 has changed the way they approach the process. There is now a greater focus on regular feedback to address potential performance issues, as well as more focus on development plans and ensuring that the competencies needed for employees to succeed are identified and addressed.

The new world of work has taught us that leadership should focus on competencies that will ensure a deeply engaged, high-performing workforce. In light of this, businesses should review their employees' skills

and competencies on a regular basis - to keep up with the changing micro and macro environments within which they operate and to encourage continuous learning and innovation. Performance is no longer just about how an employee adds value to the company's bottom-line revenue and the rewards they receive in return. It is now a vital part of the overall employee value proposition (EVP).

The pandemic has forced businesses to change the way they work. In some cases, employees who work remotely have had their jobs restructured due to the nature of the work. These changes may have had an impact on the size of the role as well as the competency requirements to perform the job.

The managerial skills needed to effectively lead employees virtually (versus face-to-face) are very different. The change has emphasised the importance of managers using soft skills to correct or maintain employee conduct and performance needed for a company to succeed.


Employees themselves also require greater levels of emotional intelligence because of the responsibility of having to manage their own work and output. This requires a clear line of sight between the company and each employee's goals and objectives – from a financial, process improvement, innovation and EVP perspective.

It is a company's responsibility that employees have

Another important consideration in the South African context is measuring competencies and documenting them as part of the performance-management process. This provides the business with the ability to defend any alleged inequities if issues arise regarding equal pay for equal work.

After all, each role has competencies linked to it, but not everyone within that role necessarily performs at the same level of competency because of individual skills and experience.

Performance measurement should therefore be twofold. One aspect is measuring the employee on how they rate against the competency requirements for their specific job. The result of their rating would



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— ” —

the resources, knowledge and skills needed to do their jobs while ensuring they remain sufficiently motivated and engaged to deliver results.

When businesses recruit staff, they often focus on finding the right people with the right skills. This is a short-term approach. Just like skills, competency requirements change over time. Over the long term a business must ensure that their staff competencies remain current and relevant to provide continued individual and organisational growth.

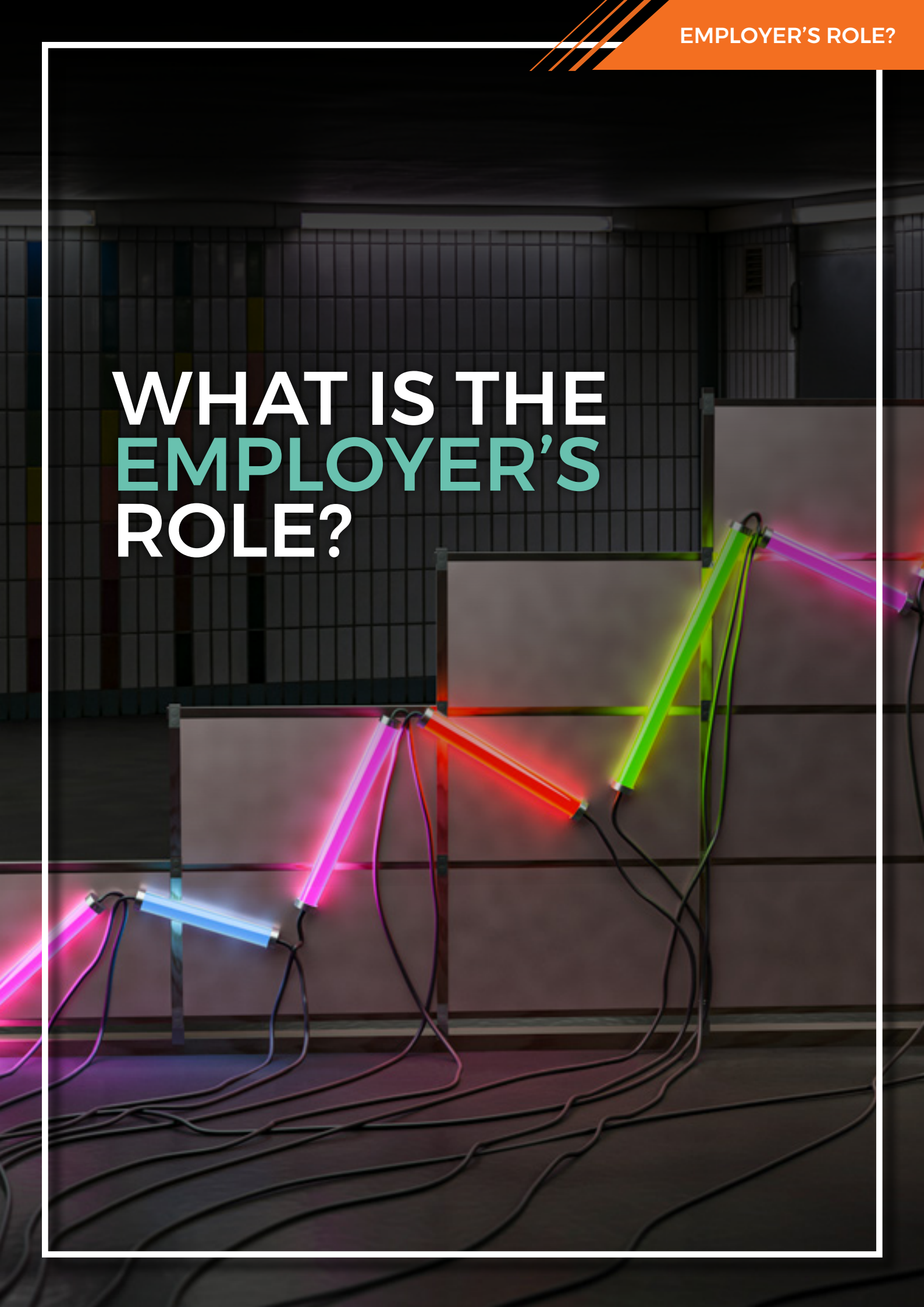
Before revising its current performance-management system, a business should review its overarching competency framework and ensure that it is relevant to the company's strategy. The framework should also be customised to the needs of each department/function and job to ensure that the staff conduct and job requirements are clearly defined.

be used to determine the development they need to meet that specific competency level.

The second is measuring how the company has contributed to the ability of the employee to meet the level of competency required. Performance is no longer just about how the employee is performing – it should also consider how the organisation is contributing towards improving employee performance.

Human capital is the foundation of any business. Nowadays, traditional, hierarchical and bureaucratic ways of working have been replaced by a flexible, inclusive and self-managed approach. Innovation is a key driver and employees need to develop themselves and their skills to add value to the company while contributing to their own personal growth. They also need to tell their employers what they need to succeed in the job.

# WHAT IS THE EMPLOYER'S ROLE?





**A**ccording to National Treasury, most South Africans outlive their savings and only 6% can afford to retire comfortably and keep up with their current lifestyle. This presents an enormous challenge for employees but an opportunity for employers who either administer or outsource their employees' retirement funds. Employers are uniquely placed to influence their employees' retirement outcomes – for better or for worse.

National Treasury's 6% figure is often cited but seldom appreciated or understood. To illustrate the extent of the problem, Old Mutual Corporate conducted the Social Experiment with eight volunteer families who were carefully chosen to accurately reflect the South African demographic. A staged grocery-shopping environment was created and shelves were stocked with what families would typically buy every month. The families were then asked to fill their trolleys with what they would usually need in a month.

relative to their future grocery budget based on their pension cover. Nearly all families were over budget – one by as much as 800%.

As the families took items out of their trolleys to get down to their budget, the message landed loud and clear – their grocery shop demonstrated the diminishing value of their retirement savings.

### THE ONTRACK TOOL

For employees, the Social Experiment highlighted the importance of saving enough towards their retirement while they are working and earning. For employers, it emphasised the critical need to ensure that their retirement funding options are providing the outcomes employees need. Old Mutual Corporate's OnTrack™ tool allows them to do exactly that.

'OnTrack™ uses extensive data about your fund's membership to tell us how effective your fund is

## 'EMPLOYERS ARE UNIQUELY PLACED TO INFLUENCE THEIR EMPLOYEES' RETIREMENT OUTCOMES – FOR BETTER OR FOR WORSE.'

What they didn't know was that when they arrived at the till to pay, the prices of their groceries were inflated using CPI to reflect what they would cost at the breadwinner's retirement age. Old Mutual's actuaries had also calculated each family's projected income available when the breadwinner retired.

This is when the harsh reality struck ... a big screen at the checkout revealed how much they had overspent,

– and hence to give a health check on your fund,' says Andrew Davison, Head of Advice at Old Mutual Corporate Consultants. 'We look at every single member in your fund, taking the period that they have been a member of the fund, seeing if they have accumulated the level of savings that they should have, based on their time spent in the fund. We know what they need to have accumulated for any length

of time, relative to their salary.'

The tool calculates how many multiples of their annual salary each employee should have at retirement (based on their current salary and expected retirement age), and how many they have currently. And while OnTrack™ looks at the overall state of the retirement fund, its insights are based on each fund member's savings.

## SIX KEY LEVERS TO EMPLOY

'Once we've used OnTrack™ to assess your fund, now it's about taking action,' says Davison. He points to six key levers that employers can use to improve their fund members' retirement outcomes.

The first lever is based on the fund's definition of pensionable salary. 'We see far too many schemes where the pensionable salary and the total cost to company aren't the same. That's a problem,' says Davison. 'It's important to align that definition.'

The next looks at the level of contributions. 'Fund members need to be saving enough into their retirement fund to give themselves a reasonable chance of accumulating enough assets,' says Davison. Old Mutual generally recommends at least 15% of an individual's salary is set aside for retirement.

'The next important lever is the investment strategy,' says Davison. 'Inflation is your enemy when you're saving for retirement, because it impacts on your spending power. When you're looking at spending power well into the future, you need to beat inflation. Your investment strategy needs to achieve a return of at least inflation plus 5% every single year. If your investment strategy is not designed to do that, it needs to be looked at.'

The fourth lever is the fund's normal retirement age. 'The earlier you retire, the more money you're going to need to last until your death,' says Davison. 'Delaying retirement is a very good way of achieving a better outcome.'

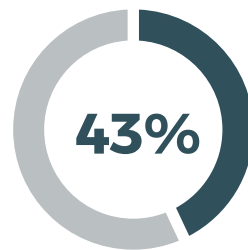
The next one to look at is preservation. South Africa is a rare economy in which employees are allowed to cash in their retirement savings when they change jobs. 'Unfortunately, they tend to take their money and spend it instead of leaving it invested for their retirement. That is a big detractor from retirement outcomes,' Davison warns.

The final lever is pulled when the employee gets to

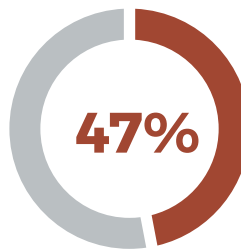
retirement and needs to convert their retirement savings into a monthly pension that will last for the rest of their life (increasing with inflation every year). Employers can assist here by providing at-retirement counselling to help employees choose an appropriate annuity product.

Employers who wish to retain top talent must demonstrate that they are invested in their employees' financial future. Knowing that 94% of South Africans are not on course to retire comfortably, employers should interrogate the effectiveness of their retirement funding arrangements and ensure that they - and their employees - remain on track.

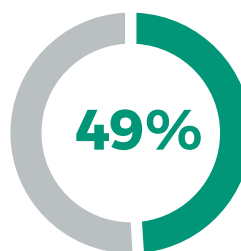
## RETIREMENT BY THE NUMBERS



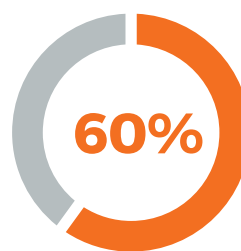
South Africans who are part of the 'sandwich generation' (supporting not only their children but parents and other relatives)



Respondents who say that how they think about retirement has changed since COVID-19



South Africans who do not have a retirement plan



Respondents who know little or nothing about the retirement fund they belong to

Source: Old Mutual Savings and Investment Monitor 2018 & 2021



# UPCOMING WORKSHOPS FOR REMCHANNEL

## **REWARD ACADEMY: 12 & 13 JULY 2022**

This course will be of value to delegates as it is presented through a practical and hands-on learning approach incorporating many exercises and case studies. Aspects covered in detail during the course of the workshop are the following:

1. The business challenge
2. Understanding employee needs
3. The employment life cycle
4. Total rewards management
5. The employee value proposition
6. Remuneration philosophy & strategy
7. Understanding different remuneration structures
8. An overview on pay structures & positioning employees within the pay structure
9. Job profiling and job evaluation principles
10. Remuneration benchmarking and job matching
11. Determining remuneration when making offers and attracting employees
12. Conducting the annual salary review
13. Communicating pay information
14. Practical checklists for managers

## **ADVANCED EXCEL DASHBOARDS: 23 & 24 AUGUST 2022**

Excel dashboards enable the consolidation of huge amounts of data into an executive summary view. They use interactive fields to allow different views of the data and modelling of data. Dashboards can replace bulky and cumbersome reports, show management only what they want to see and allow powerful what-if analyses for incentive modelling. Dashboards have enormous application in HR and compensation work.

## **JOB PROFILING AND JOB EVALUATION: 13 & 14 SEPTEMBER 2022**

A practical and hands-on learning approach incorporating many exercises and case studies that adds value for application at the delegates' workplace. The workshop content is based on market best practice as researched by Remchannel and applied in the design of our products for job profiling (REMprofile®) and job evaluation (REMeasure®) and utilised in our consulting solutions.

For bookings and more information, please contact **Clarissa Poonawassy** at [workshops@remchannel.com](mailto:workshops@remchannel.com)

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