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21st Century
PAY SOLUTIONS GROUP (PTY) LTD

Factors driving change to remuneration policy and outcomes



CEO Quotes

- “We are skiing on an avalanche”
- “The height of turbulence is when the ground is in motion - are you changing faster than the ground under you?”
- “Engaging in South African business today is like being mauled by a sheep”
- “We are the scenario capital of the world - we are so uncertain of ourselves, no-one is betting”
- “The 90’s is the white knuckle decade”
- “When the structures shake, the sharks feed”



Money matters

When the super tanker Exxon Valdez ran aground in Alaska, fast action was required to rescue wildlife from the spreading oil. For \$20 an hour, local members of an Eskimo tribe were hired to care for stranded whales, cleaning and feeding them until they could be released. When the temporary, highly paid jobs were no longer available, the Eskimos went back to their usual occupation – hunting the whales. The point is that money matters. It matters what is paid *and* how it is paid.



Research questions

- *Question 1:* What factors are important in driving remuneration policy decisions?
- *Question 2:* To what extent do these factors influence decision-making?
- *Question 3:* Which components of the remuneration policy were changed and to what extent were they changed?
- *Question 4:* What impact did the changes to the remuneration policy make on the organisation?
- *Question 5:* Are there differences in the responses for different participants?



Research approach

The triangulated research model that was adopted, comprised two phases:

- Phase 1 – A pilot study that was qualitative, involving individual interviews with experts in the field and content analysis. This qualitative step was carried out to define valid constructs for the questionnaire for phase 2
- Phase 2 – The main study that was quantitative and involved questionnaires and statistical analysis



Population and sampling

Phase 1 – Pilot study (Qualitative)

- The purpose of the pilot was to obtain valid constructs for the questionnaire and to supplement the literature review. Interviews were held and the questionnaire was amended to incorporate all variables not covered in the literature review.
- Listed companies employing more than 5000 employees – 2 interviews with dedicated remuneration professionals
- Companies employing less than 5000 employees – 2 interviews with dedicated remuneration professionals
- Remuneration committee members who are not dedicated remuneration experts – 4 interviews
- Managing Directors – 2 interviews

Phase 2 – Main study (Quantitative)

- The size of the population for the main quantitative phase of the study were people responsible for remuneration in all registered companies in South Africa. Several mail lists were used, namely South African Chamber of Commerce, all listed companies in South Africa and the 21st Century Business and Pay Solutions client database. These combined databases consist of 1700 companies.
- The response was considered a representative sample of the companies operating in South Africa. The whole population was used. The sample was every questionnaire returned. Most of the sample was human resource executives, remuneration executives or finance executives across all industry sectors in all sizes of companies



Categories and characteristics of survey respondents

Characteristic	Broader categories of characteristic				
Industry sector	Resources	Financials	Non-cyclical consumer goods	Cyclical services	Other
	26.5%	24.3%	20.9%	15.5%	12.8%
Type of company	Private sector	Public sector/Parastatal			
	75%	25%			
Listing of company	Not listed	Listed			
	60.1%	39.9%			
Organisational structure	Holding	Subsidiary (local or international)	(Missing data)		
	33.1%	43.2%	23.7%		
Organisation financial size*	Up to R300m	>R300m-R1,5bn	>R1,51bn		
	27.7%	29.1%	43.2%		
Number of employees	Small (up to 500)	Medium (501 to 5000)	Large (>5000)		
	32.4%	36.5%	31.1%		
Number of years incorporated	50 years or less	Over 50 years			
	48.6%	51.4%			
Remuneration committee	Yes	No	Do not know		
	62.2%	34.5%	3.3%		
Position	HR manager/director	Other			
	47.3%	52.7%			



Categories defined

Resources (e.g. Mining, oil and gas) and basic industries (e.g. Chemicals, forestry and paper, steel and metals, construction and building).

Financials (e.g. Investment companies, banks, specialty and other finance, life assurance, insurance, real estate), Information technology (e.g. hardware, software and computer services) and professional services (e.g. legal, audit, consulting).

Non cyclical consumer goods (e.g. beverages, food producers and processors, health, pharmaceuticals and biotechnology) and cyclical consumer goods (e.g. household goods and textiles, automobile and parts).

Cyclical services (e.g. general retailers, support services, leisure and hotels, media and entertainment, transport), general industries (e.g. diversified industries, electronic and electrical equipment, engineering and machinery), non-cyclical services (e.g. food and drug retailers, telecommunications services, development capital, venture capital)

Category 5 – Other (e.g. parastatals and public service).



Factors driving change to remuneration policy rank ordered by large extent

Factors driving change to remuneration policy	To a small extent		To a moderate extent		To a large extent	
	Count	%	Count	%	Count	%
Retention of key staff	8	5.4%	64	43.2%	76	51.4%
Financial results	13	8.8%	66	44.6%	69	46.6%
Strategic thrust	16	10.8%	67	45.3%	65	43.9%
Surveys / benchmarking	18	12.2%	78	52.7%	52	35.1%
Internal advisers	17	11.5%	84	56.7%	47	31.8%
Affordability / rising costs	13	8.8%	91	61.5%	44	29.7%
Productivity	17	11.5%	88	59.4%	43	29.1%
Legislation	35	23.6%	72	48.7%	41	27.7%
Board of directors	32	21.6%	76	51.4%	40	27.0%
Change in culture	34	23.0%	76	51.3%	38	25.7%
Your competitors	43	29.1%	69	46.6%	36	24.3%
Development / career progression	19	12.8%	97	65.6%	32	21.6%
Economic restructuring / different work patterns	26	17.6%	90	60.8%	32	21.6%
Remuneration Committee	60	40.5%	60	40.5%	28	19.0%
Shareholder expectations	51	34.5%	74	50.0%	23	15.5%
Staff loyalty	32	21.6%	95	64.2%	21	14.2%
Turbulence in business environment	45	30.4%	82	55.4%	21	14.2%
Advanced technological developments	65	43.9%	66	44.6%	17	11.5%
External advisers	53	35.8%	79	53.4%	16	10.8%
Social upheaval / trade union	73	49.3%	62	41.9%	13	8.8%
Governance / King II report	46	31.1%	91	61.5%	11	7.4%
Publicity	89	60.1%	51	34.5%	8	5.4%
Investment / stock exchange analysts	106	71.6%	37	25.0%	5	3.4%
Corporate failures	112	75.7%	33	22.3%	3	2.0%



Component loadings on 7 first order postulated factors

Extent of change	Factor						
	1	2	3	4	5	6	7
Internal advisers	0.691					0.122	0.177
Governance/King II report	0.592	0.230	0.186		0.297		
Strategic thrust	0.518		0.384	0.201	-0.187	0.234	
Remuneration committee	0.486	0.101		0.255	0.163		
External advisers	0.466				0.287		0.153
Investment/Stock exchange analysts		0.811			0.205		
Corporate failures	0.125	0.627	0.149			0.105	
Shareholders expectations	0.101	0.487		0.368			
Publicity		0.383	0.209	0.107	0.252	-0.150	
Productivity			0.596	0.371			0.251
Economic restructuring/different work patterns		0.167	0.567				
Change in culture	0.285		0.407	-0.158		0.229	
Advanced technological developments		0.340	0.384		0.223		
Development/Career progression	0.131		0.315			0.311	0.284
Financial results	0.239	0.160	0.199	0.615		0.192	
Board of directors		0.145		0.440	0.165		0.214
Affordability/Rising costs				0.392			
Turbulence in business environment	-0.112		0.289	0.311	0.107	0.308	0.111
Social upheaval/trade unions	0.103	0.138		0.141	0.605		
Legislation	0.202	0.183			0.52		
Your competitors		0.120		0.201		0.653	0.106
Surveys/benchmarking	0.354	-0.126				0.446	
Retention of key staff	0.256			0.163	-0.162	0.268	0.620
Staff loyalty			0.137	0.222	0.122		0.616



First order factors

Factor	Descriptive Label
1	Governance
2	Shareholders/stakeholders
3	Organisation and work design
4	Financial and leadership
5	Legislation and agreements
6	Competitors
7	Staff retention



Component loadings on 5 first order postulated factors

Remuneration policy component	Component loadings				
	1	2	3	4	5
Remuneration mix	0.721	0.203	0.195		-0.114
Short term incentive	0.718				2.26
Remuneration governance	0.669		0.149	0.285	0.134
Legal compliance	0.548	0.105		0.151	
Share scheme	0.547				0.38
Fixed period employment contracts		0.725		-0.107	0.323
Total package	0.347	0.651		0.134	-0.177
Fringe benefits	0.189	0.597		0.22	
Base pay management	-0.175	0.503	0.408	0.249	
Rand hedging of salaries	0.142		0.843		0.136
International remuneration	0.107	0.14	0.768	0.102	
Job evaluation / broadbanding	0.118	0.124		0.825	
Market position	0.142		0.173	0.596	0.485
Merit pay / PRP	0.166	0.338	0.372	0.531	
Retention strategy		0.284	0.132	0.119	0.765
Long term incentives	0.446	-0.103	0.295	-0.179	0.494

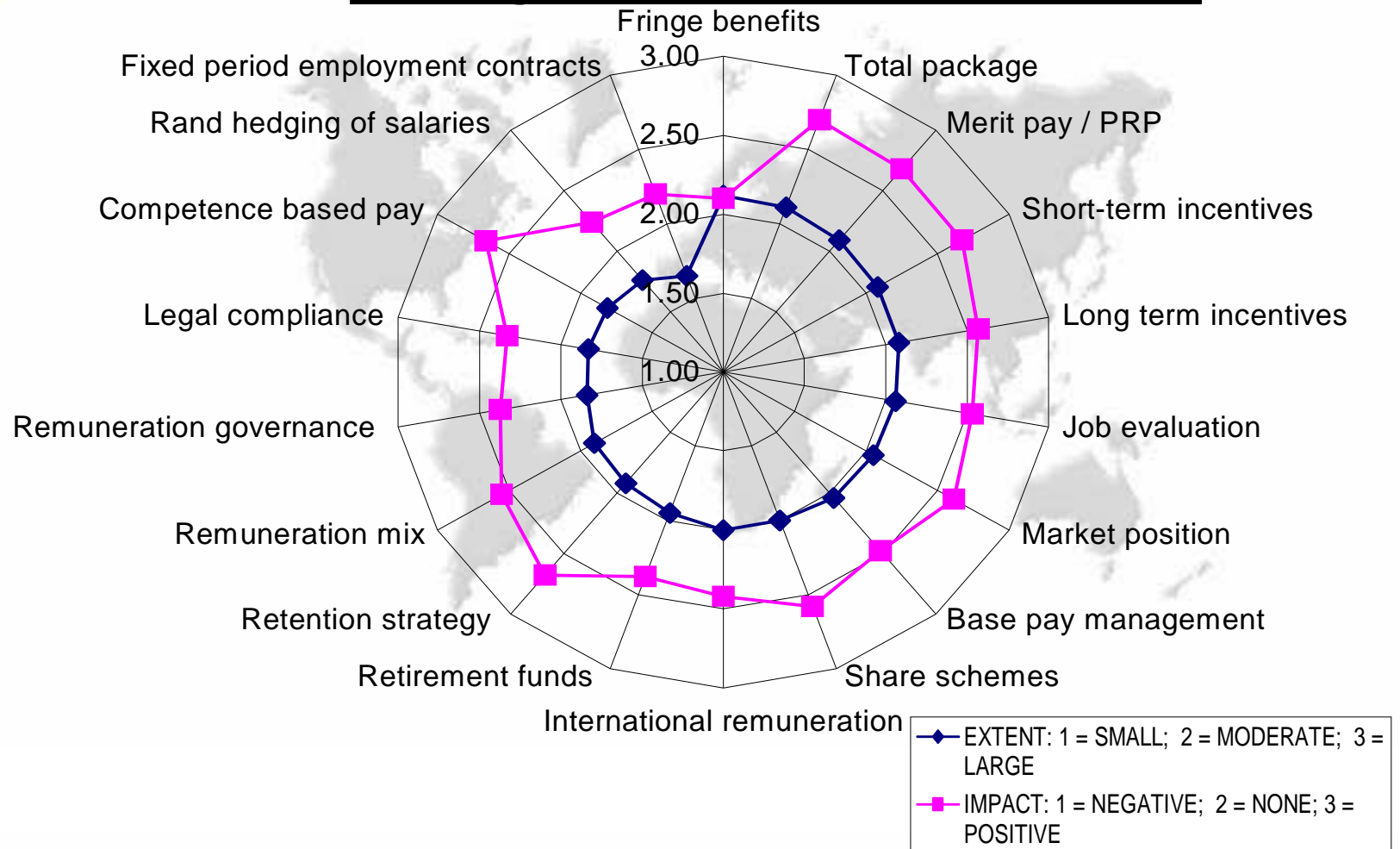


First order factors

Factor	Descriptive Label
1	Remuneration mix and governance
2	Guaranteed pay
3	International remuneration
4	Pay progression/ PRP
5	Retention strategy

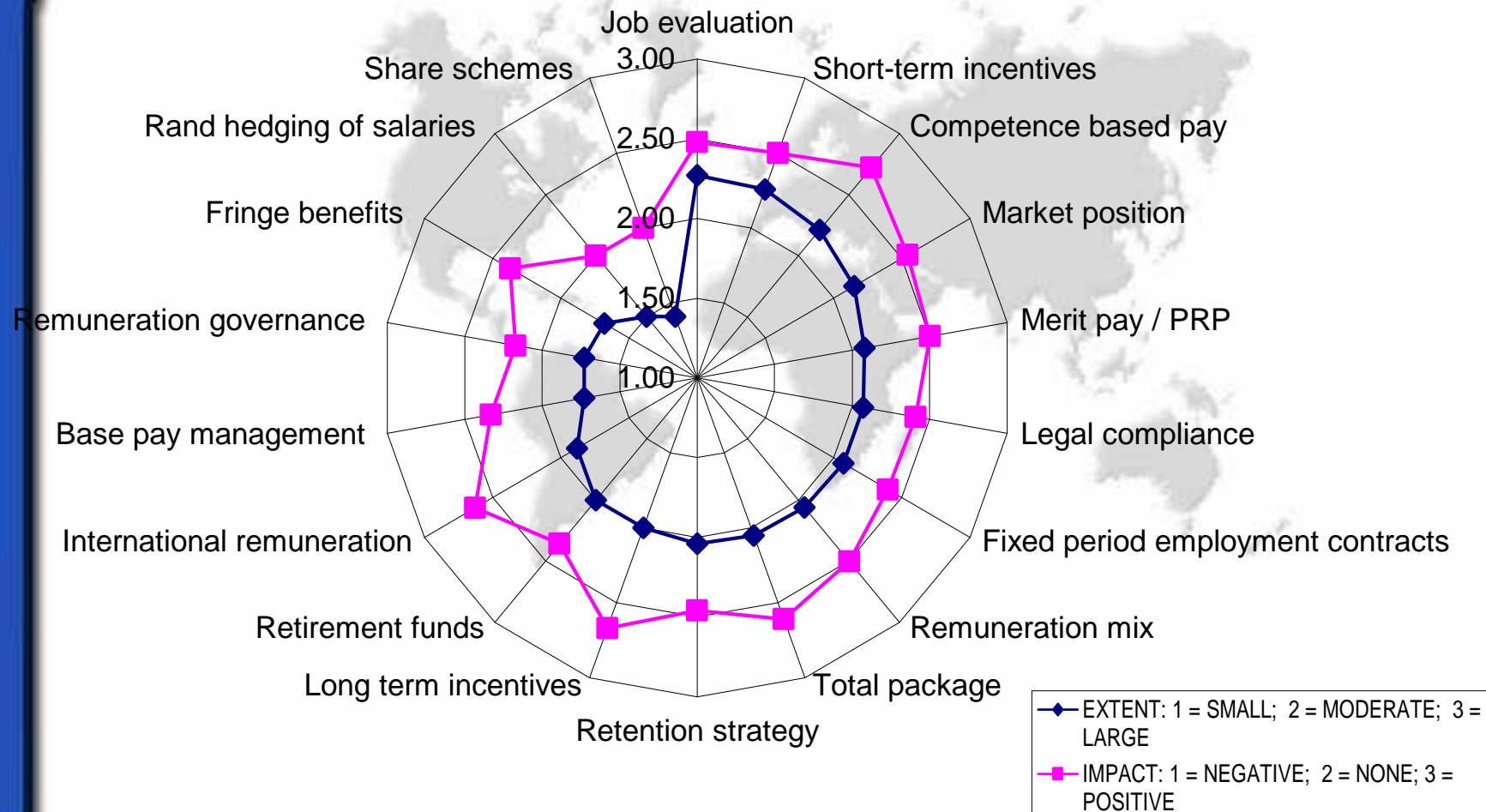


Gap analysis of extent of change of remuneration policy and impact of change on the organisation – private sector





Gap analysis of extent of change of remuneration policy and impact of change on the organisation - public sector





Mean extent of change of remuneration policy and impact on organisation

	Sorted by extent		Sorted by impact		
	Extent	Impact	Extent	Impact	
Short term incentives	2.13	2.63	2.10	2.68	Total package
Job evaluation	2.11	2.52	1.91	2.68	Competence based pay
Total package	2.10	2.68	2.09	2.64	Merit pay / PRP
Merit pay / PRP	2.09	2.64	2.13	2.63	Short term incentives
Market position	2.08	2.59	1.95	2.63	Retention strategy
Long term incentives	2.06	2.60	2.06	2.60	Long term incentives
Fringe benefits	2.01	2.17	2.08	2.59	Market position
International remuneration	1.97	2.47	1.94	2.54	Remuneration mix
Base pay management	1.96	2.44	2.11	2.52	Job evaluation
Retirement funds	1.96	2.38	1.97	2.47	International remuneration
Retention strategy	1.95	2.63	1.96	2.44	Base pay management
Remuneration mix	1.94	2.54	1.85	2.44	Share schemes
Competence based pay	1.91	2.68	1.96	2.38	Retirement funds
Legal compliance	1.89	2.35	1.89	2.35	Legal compliance
Share schemes	1.85	2.44	1.81	2.32	Remuneration governance
Remuneration governance	1.81	2.32	1.76	2.25	Fixed period employment
Fixed period employment	1.76	2.25	1.70	2.18	Rand hedging of salaries
Rand hedging of salaries	1.70	2.18	2.01	2.17	Fringe benefits



Top 5 changes

Private Sector

- Fringe benefits policy
- Total package policy
- Merit pay/ performance related pay policy
- Short term incentives policy
- Long term incentives policy

Public sector

- Job evaluation / broadbanding policy
- Short term incentives policy
- Competency based pay policy
- Market position policy
- Merit pay/ performance related pay policy



Impact of remuneration policy component - private sector

Impact	Remuneration policy component
Positive	Competence based pay Job evaluation Long term incentives Market position Merit pay / PRP Remuneration mix Retention strategy Share schemes Short term incentives Total package
Neutral	Base pay management Fixed period employment contracts Fringe benefits International remuneration Legal compliance Rand hedging of salaries Remuneration governance Retirement funds



Impact of remuneration policy component - public sector

Impact	Remuneration policy component
Positive	Competence based pay International remuneration Long term incentives Market position Merit pay / PRP Total package Remuneration mix Short term incentives
Neutral	Base pay management Fixed period employment contracts Fringe benefits Job evaluation Legal compliance Remuneration governance Retention strategy Retirement funds
Negative	Rand hedging of salaries Share schemes



Summary of analysis

Stimulus / Input (Construct 1)	Organismic / Throughput (Construct 2)	Response / Output (Construct 3)
Factors driving change	Components of remuneration policy	Impact on organisation
Governance	Remuneration mix / governance	Positive
Shareholders/stakeholders	Guaranteed pay	Neutral
Organisation and work design	International remuneration	Negative
Financial and leadership	Pay progression/ PRP	
Legislation and agreements	Retention strategy	
Competitors		
Staff retention		