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## HUMAN RESOURCE MANAGEMENT: REMUNERATION AND PERFORMANCE MANAGEMENT

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# Human Resource Management: Remuneration and Performance Management

## 1. THE REMUNERATION PHILOSOPHY OF THE UNIVERSITY

In order to ensure the integrity and legitimacy of the total remuneration system, the development and implementation of related policies, programmes, practices and decisions is directed by the main remuneration principles contained in the remuneration policy. The philosophy consists mainly of principles, values and points of departure relating to remuneration at the University. The values guide the remuneration strategy and are more lasting in nature, while the objectives of the remuneration strategy will change as the University's business plan is amended. The aim of the remuneration philosophy is to:

- communicate the remuneration commitments and expectations to the staff in an iterative manner;
- strengthen the organisational culture and underlying values of the University;
- guide and facilitate the University's implementation plan for remuneration;
- describe the manner in which the University manages remuneration at the organisational level so that it is fair and consistent; and
- serve as standard for the evaluation of the successful implementation of the University's remuneration policy and remuneration strategy.

The remuneration strategy of Stellenbosch University is based on the following eight central principles:

### i) Transparent communication

All information that is needed to take well-considered decisions regarding remuneration shall be communicated frankly *and* iteratively, while the confidentiality of the personal remuneration information of individuals is to be respected. This will improve the quality of decisions, promote openness and honesty and ensure that ownership and accountability are accepted.

### ii) Non-discriminatory practices

All remuneration policy directives and practices will be free of unfair distinction, since unfair discrimination based on race, gender, pregnancy, marital status, family responsibility, ethnic or social origin, sexual orientation, age, disability, religion, HIV status, conscience, convictions, political orientation, culture, language and birth is

unacceptable to the University. However, fair distinction, based on performance, scarcity factors and skills, will be applied.

iii) Internal equity

The University endeavors to remunerate all staff fairly and consistently according to their role and individual value. The consistent application of the remuneration system throughout the University is encouraged.

iv) External parity

The University continuously takes sectorial and national remuneration trends into consideration so as to position the organisation strategically in order to ensure competitive total remuneration within the parameters of affordability, as far as is achievable and sustainable.

v) Performance-driven remuneration

The University endeavors to strengthen the link between remuneration and performance by means of performance management systems that make it possible to differentiate between excellent, average and below-average performers. The remuneration system aims to reward overall contribution rather than status or position.

vi) Affordability

In accordance with the University's business plan and strategy and in consideration of the annual budgetary scope, certain limits are set with regard to remuneration and other human resource costs. These serve as a guideline for what can be spent. The annual adjustment in the University's remuneration account and the components of the remuneration adjustments take place with due allowance for:

- The necessity of competitive remuneration
- The available budget funds
- The inflation rate
- The desirability of performance bonuses and the extent of these
- The need for structural adjustments with regard to the remuneration of individuals and occupational groups.

vii) Remuneration for development

The University encourages its employees to improve their competency in ways that concur with the needs of the University by (a) offering them opportunities to do so and (b) encouraging, acknowledging and rewarding career development and, where possible, offering resources to this end.

## viii) “Cost of employment” package approach

The remuneration of individuals is based on the cost of employment. This approach offers certain flexible structuring choices to individuals, which is the fairest way of managing remuneration and costs within tax legislation.

## 2. REMUNERATION POLICY

The following remuneration policy is implemented in the context of the University’s integrated remuneration philosophy (see paragraph 1) and embedded in and in direct support of the University’s inclusive Human Resources Plan:

Stellenbosch University underwrites a remuneration policy that:

- aims to **manage remuneration expenditure in an appropriate manner** and offers the desired yield in terms of the behavior and performance of the staff – in line with the University’s inclusive values and performance indicators,
- uses the value of the **remuneration system as a central mechanism** with which to achieve organisational objectives,
- acknowledges the **contribution of individual employees** to ensure the success of the University,
- offers managers the necessary **flexibility** to manage remuneration effectively,
- **positions** the remuneration levels of the University **appropriately and sustainably in the labour market.**

More specifically:

- The remuneration system should offer the University managers a powerful mechanism with which to achieve **operational and strategic objectives.**
- The remuneration system should enable the University’s managers to **differentiate** the total remuneration **according to individual performance.** Good performers should be remunerated according to value, while excellent performers should be remunerated significantly better than underperformers.
- The remuneration of excellent performance in a specific year should not influence remuneration in subsequent years. The **annuity problem** with performance remuneration is acknowledged. For this reason, the University uses an annual performance-linked bonus that does not form a permanent component of the basic remuneration.

- Within the boundaries of affordability, the aim is, over time, to maintain the remuneration of average and excellent performers in **real terms**.
- It is important that the University's **competitive remuneration position** in the market is maintained. The potholes and shortcomings of post evaluations and market surveys should be managed professionally in order to obtain timely and appropriate information on the University's position in the market.
- **Basic levels of remuneration** (total cost of employment for the University) should, as far as is possible, be competitive in the market. However, the level should not be fixed permanently, but rather managed in terms of **affordability**, as well as in terms of the prevailing market conditions.
- **A single basic level of remuneration** per post level is not viable or desirable. At the same time, excessive variations in basic remuneration levels are also not desirable, because this will inhibit the degrees of freedom of managers to make rapid changes in the remuneration levels of employees – in line with changes in performance. Consequently, the University functions within relatively narrow boundaries in terms of basic levels of remuneration, while being thoroughly aware and accepting of the fact that the **cost of employment of poor performers may fall below the boundary**.
- Because the University does not wish to protect poor performers, it is **doing away with the practice of a minimum remuneration level per post level**.
- The **slope of the University's remuneration curve, with the lowest and highest remuneration levels as its extreme anchors for the University as a whole**, is a function of the market as well as of other economic, social, ethical and moral considerations that are taken into consideration from time to time.

### 3. **MAIN DRIVERS OF THE REMUNERATION SYSTEM OF THE UNIVERSITY**

The main drivers of the remuneration system of the University are as follows:

- basic remuneration;
- performance bonuses;
- scarcity premiums; and
- benefits.

### 3.1 Basic remuneration

#### Norm determination:

The current practice, according to which an effort is made to compare basic remuneration with the median in the tertiary market when decisions are taken, will be continued. Furthermore, the basic remuneration is based on the relevant remuneration surveys as decided on from time to time (currently Remchannel, as well as comparisons with other tertiary institutions), as well as on considerations of affordability.

#### Post evaluation system:

The current Peromnes post evaluation system will be retained and a suitable baseline band will be developed for each post level.

#### Salary adjustments:

Performance-driven salary adjustments are allocated in January every year. Clear guidelines and support for this process will always be given to the heads of environment and staff by the Human Resources Division before the start of the performance cycle concerned.

### 3.2 Performance awards

There will be support for the development of a system of performance bonuses based on excellent, world-class performance. Performance awards are earned every year from scratch, the payment of performance bonuses also is a **function of affordability** and is limited to a maximum of the top 20% of performers across the University.

### 3.3 Scarcity premiums

The payment of scarcity premiums for certain posts will be maintained as practice. A scarcity premium will be linked to a post or incumbent when there is a demand for such a post or incumbent and there is limited availability of the necessary skills and competencies in the market. The University therefore will pay such scarcity premiums as an allowance to employees who fill these posts in order to attract and retain them. The payment of the premiums will be revised on an annual basis as a result of varying supply and demand factors in the market.

### 3.4 Benefits

Suitable communication programs will be instituted to make the staff aware of the benefits for employees of the University. This is of importance particularly to create greater awareness of all benefits so that the staff will view these as part of the total employee value proposition.

## 4. REMUNERATION POLICY – GUIDELINES FOR IMPLEMENTATION

### 4.1 Implementation – general

The University's approved remuneration policy is implemented as follows:

#### 4.1.1 General adjustments:

- As a starting point, a position structure is organised according to which work is allocated in different post levels, as determined on the basis of the Peromnes grading.
- Basic remuneration levels are linked to different post levels. These remuneration levels take factors such as market competitiveness and scarcity value into consideration – within the boundaries of what the University can afford in a responsible and continuous manner.
- Continuous and close attention is paid to the slope of the University's total remuneration curve in order to ensure that fair differences are maintained between the remuneration levels of junior and more senior posts respectively.
- Every year, and after a thorough consideration of factors such as market competitiveness, market scarcity, inflation and responsible affordability, **general adjustments** are made to the basic remuneration levels of the post structures of the University. The outcome of this is that the remuneration curve as a whole is shifted upwards, and that the target of 'total cost of employment' (basic remuneration levels) is increased per post level.
- Given that the University wants to ensure that the real remuneration position of all employees who perform average or better is at least maintained as far as is possible, it follows logically that these employees will receive an adjustment equal to the **general remuneration adjustment** referred to earlier.
- Employees whose performance is below average or poor will receive adjustments that are lower than the **general adjustments** in terms of the annual adjustments, and in cases of extremely poor performance, may even



receive **no adjustment** or nominal decreases in remuneration within the space allowed by the relevant legislation.

#### 4.1.2 Financial acknowledgement of individual performance:

- Annual performance bonuses for excellent performers are a variable form of remuneration, because they:
  - Have to be earned from scratch each year and thus have no carry-through effect, and
  - Their quantity in any specific year is a direct function of the availability of funds.
- At the end of each calendar year, the extent to which the respective environments have achieved their agreed objectives will be determined and, depending on the extent to which the objectives have been achieved and with full consideration of the contextual realities of each environment, the environments will share *pro rate* in the funds that are voted for performance bonuses each year.
- These funds that are allocated per environment are set apart to be allocated to a maximum of the **twenty percent of top performers in each of the University's environments** – as determined by the performance evaluations per environment (up to and including post level 4).
- The performance of staff at post levels 2 and 3 is also evaluated annually in terms of previously agreed objectives, and proposals on performance bonuses for these staff at these levels are made annually by the Rector, in consultation with the Rector's Management Team (RMT), to the HR Committee (Council).

#### 4.1.3 Handling below-average performers:

- Below-average performers receive annual adjustments that are smaller than the **average remuneration adjustments** (and even no adjustments in cases of extremely poor performance).
- Identified below-average performers are given no choice about being placed in a process of compulsory career management – under the guidance of the relevant line head and with the support of the Human Resources Division.

- If it should become evident that the performance of these staff members has not improved within a further six months as agreed in advance and there are not sufficient reasons to condone non-performance, these staff members will be dismissed.
- However, if there should be satisfactory reversal in an under-achiever's performance – as confirmed through sustained permanent improvement over a period of 24 months of directed career management, the remuneration level of the staff member concerned may be increased to the average 'total cost of employment' that applies to the particular post level at that stage.

4.1.4 Handling of staff with remuneration levels that are significantly higher (higher than 1,25)<sup>1</sup> than the median 'total cost of employment' for the specific post level:

- This situation arises as a result of market scarcity factors, the personal market value of specific individuals (whom the University would like to 'buy'), and the 'highlighting' of specific staff (e.g. as a result of NRF ratings).
- It can be viewed as acceptable that such people will continue to be allocated levels of remuneration that are higher than the average total cost of employment for the post level concerned, but on the following conditions:
  - i) Continuation thereof is subject to continued excellent performance, as agreed in advance for each subsequent period of time.
  - ii) Granted that there is sustained excellent performance, the premium earned by the staff member concerned must be managed in such a manner that, over time (three years), it is not higher than 1,25 of the average total cost of employment for the relevant post level. The implication is that the annual remuneration adjustments of these members of staff might be smaller than the **general adjustments**, especially in cases where the remuneration level of the staff member concerned is higher than the aforementioned 1,25.
  - iii) However, regardless of the directed management of the remuneration levels of these staff, they still qualify on the basis of continued excellent performance to come into consideration each year for performance bonuses, since these bonuses have no carry-through effect.

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<sup>1</sup> The 1,25 is a guideline

- iv) In certain cases, however, continued exceeding may be condoned by management. This, however, will only be acceptable if all other staff in the environment/career category is out-performed.

#### 4.1.5 Assurance of parity treatment at individual post levels:

When the remuneration levels of individual members of staff are analysed per post level, it is normal to expect that there will be cases where the remuneration levels of staff members are significantly lower than those of the new entrants to that post level. This phenomenon could arise from various factors, including the fact that new entrants negotiated better for their specific remuneration level in the post level concerned, or because the remuneration that the new entrant earned elsewhere at that stage was so high that the need to be competitive required that a higher remuneration level be offered. This is a normal phenomenon, which makes it necessary to analyse the situation regularly and, where justified, to institute individual corrections to the remuneration levels of those members of staff who constantly perform well but earn considerably less at the same level than new entrants. For this purpose, the normal implementation practice is:

- To map the remuneration levels of all members of staff every year.
- To identify anomalies such as those discussed above.
- To verify the performance levels of the anomaly cases per post level over the preceding two years.
- With regard to the anomaly cases in which the performance over the preceding two years should justify it, to move up the remuneration levels to be at least equal to the average total cost of employment (basic remuneration level) for the post level concerned, as long as there are budgeted funds for such structural adjustments

## 4.2 Implementation – performance management

### 4.2.1 Context

The now familiar Vision 2012 of the University is based on five building blocks, namely excellence, capacity building, role playing, diversity and Afrikaans.

The achievement of Vision 2012 is dependent primarily on the sustained performance of all the staff. It thus is the excellence, capacity building and role

playing of each member of staff – albeit in different contexts – that should lead to the achievement of Vision 2012.

Purposeful and equitable performance management of all the staff of the University therefore is an essential **enabler** in the achievement of Vision 2012. Through appropriate performance management (context, content and processes), the University endeavors to empower all staff functionally, to such an extent that both the University and every individual staff member will receive equitable benefit from this process. In this manner the University attempts to ensure sufficient alignment between the manners in which its vision is being pursued and the equitable career development and remuneration expectations of each member of staff.

#### 4.2.2 Basic points of departure

Performance management at the University is based on the following central points of departure:

- It should take the **context of the specific environment** into account, but the starting point should be the minimum norms that are used **in a uniform manner** as a base across the boundaries of all environments.
- As far as is practically possible, it should be based on evaluation in terms of **work objectives** (both in terms of intermediate and final work outcomes) that have been agreed upon in advance in an iterative and participatory manner between the supervisor and the staff member concerned.
- It should provide sufficient **insight** into the development needs of each member of staff.
- It should produce outputs of such a nature that the staff can be **remunerated** in a sustained manner in accordance with individual performance.
- It should ensure the **equitable treatment** of all staff across all environments.
- It should be embedded in the performance of individual environments, as agreed on from time to time in terms of the University's strategic indicators.
- It should offer a suitable mechanism for University management to take fair and well-considered decisions so as to offer performers aged 55 years and older the opportunity to continue with their service at the University up to and

including the age of 65, or up to and including an age limit between the ages of 60 and 65, determined to be to the benefit of the University and to be affordable.

#### 4.2.3 Desired outcomes

In relation to the staff, performance management offers the University an opportunity to strive for both intermediate and final outcomes.

**Intermediate outcomes** focus particularly on the improvement of the work behavior of staff and, in relation to this, the **quantity of work** (in terms of fairly contextualised minimum work norms) that could be expected of an individual member of staff.

Final work agreements, in contrast, focus on the **final outcome** of work that is carried out by each member of staff on the basis of a prior contract, for example the pass rate of students, the number of articles in approved publications, management tasks contracted in advance, successful completion and third-money stream income realised.

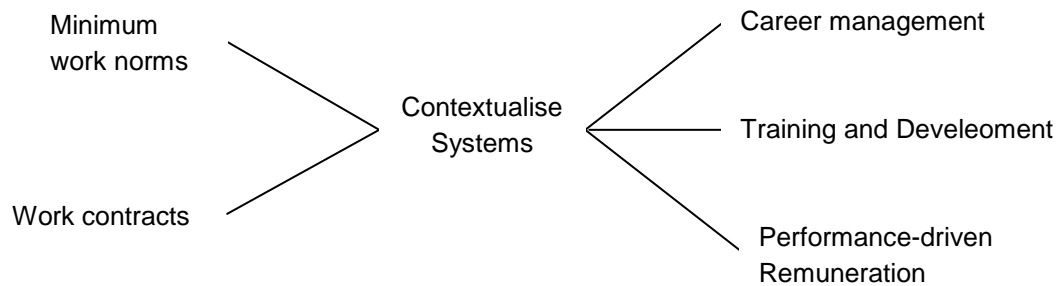
#### 4.2.4 A uniform point of departure

It has already been emphasised that equitable performance management requires adaptations being made for the **specific context of each environment**. This does not, however, negate the necessity to base performance management for the University as a whole on a uniform basis.

To be able to ensure this uniformity – particularly with regard to **the same approach in divergent contexts**, the following are required:

- Full cognisance of, and as basic point of departure, the use of approved **minimum norms** for different levels and dimensions of academic work.
- Full cognisance of, and as basic point of departure, the use of contextualised environment-specific objectives for the various strategic management indicators.
- The compilation of **work contracts** between members of staff and their direct supervisors. In terms of this approach to performance management, the different University environments are offered the space to develop and use their own systems – but with **the proviso that such systems should be**

**aligned across the University in terms of central points of departure and output (see Figure 1).**



**Figure 1: Central points of departure and output**

#### 4.2.5 The system(s)

The reality is that, over time, different systems have developed in different environments that are viewed by the staff of the environments concerned to be equitable. The central question is whether there should be a move towards a uniform system for the University, or whether an effort should rather be made to align the different systems with one another in terms of uniform input (uniform points of departure) and uniform output.

Management is convinced that the latter approach, namely to align in terms of the input and output rather than on the basis of content of the respective systems *per se*, offers the best approach – particularly because it offers the most space to take into consideration the specific contexts of all the respective University environments and for it to be experienced as fair and just by the staff of all the specific environments.

In the support service environments, a uniform system, in which work contracts play a central role, is used as standard practice.

#### 4.2.6 The annual performance cycle

The annual performance cycle for a specific year is, from 2011, from January till December of the applicable year. The following steps are taken:

- Minimum work norms for all the academic environments, per post level and post dimension, are consulted and determined with the respective environments to serve as the central starting point for the University for the following year.

- With the aforementioned minimum work norms as the central point of departure, the contextualised minimum work norms per academic environment are agreed upon by the dean and academic staff concerned.<sup>2</sup>
- Individual work contracts are entered into with all individual staff members for the following performance periods.
- The performance of staff during the performance period is managed by means of appropriate mechanisms, which include that there are regular consultation discussions between the direct supervisor and the direct subordinate, which will differ from environment to environment, on the performance of the staff member concerned up to that date for the specific year.
- Early in the following year, the immediate supervisor undertakes a final evaluation of each staff member's performance for the period by means of a participatory process with the staff member concerned.
- The outcomes of this annual evaluation include the following:
- The career planning that is envisaged for the coming year;
  - The training and development opportunities that are planned for the coming year; and
  - The inclusive performance mark, which is allocated according to a 5-point scale:
    - 1 = work performance is completely unacceptable
    - 2 = work performance is mostly unacceptable
    - 3 = work performance complies with the contextualised norms
    - 4 = work performance is above average in some respects
    - 5 = work performance is excellent.
- Each individual staff member must indicate formally that they have taken note of the outcomes of the formal annual performance evaluation and that the evaluation has been discussed with them.

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<sup>2</sup> By means of contextualised workload agreements in which both the minimum amount of work and the minimum acceptable outputs per dimension are negotiated. In the case of academic staff, this requires an agreed minimum amount of work, as well as a minimum output for each of teaching, research and community interaction, and for those academic staff members who are involved in the management functions of the respective environments, also a mutually agreed quantity and output of managerial work.

- The supervisors' annual evaluation of their subordinates is checked by the dean/head of environment concerned to ensure parity between all staff in the particular environment.
- The outcomes of the annual performance evaluation are forwarded to the Human Resources Division no later than June each year.
- The Human Resources Division undertakes an analysis of the performance evaluations of each environment and compiles an inclusive report for discussion by the RMT in which:
  - The indicated training and development needs for the University and proposals for how these can be provided during the following year are set out; and
  - The evaluations on the aforementioned 5-point scale are analysed per environment and across environments for the University as a whole and proposals are made to the RMT to ensure the equitable treatment of all staff.
- Once the percentage by which the remuneration account could grow in the next year has been determined, individual remuneration adjustments are determined by using the overall performance mark of each member of staff. This is done by the end of October each year. Within the framework of affordability, the following interfaces between the overall performance mark for individual members of staff and the associated remuneration adjustment are used:
  - Supposing the percentage by which the remuneration account can grow in a particular year is  $x\%$
  - Overall performance mark = 1: individual remuneration adjustment =  $0 \cdot x\%$
  - Overall performance mark = 2: individual remuneration adjustment =  $,5 \cdot x\%$
  - Overall performance mark = 3: individual remuneration adjustment =  $1 \cdot x\%$
  - Overall performance mark = 4: individual remuneration adjustment =  $1 \cdot x\%$
  - Overall performance mark = 5: individual remuneration adjustment =  $1 \cdot x\%$



- For service staff, the process differs in only a few respects from the abovementioned process, particularly in the sense that it is based primarily on performance contracts and, where applicable, on 360-degree evaluations, in which the heads of environment to which services are rendered by means of agreed service level agreements are involved in the evaluation process.