



CCMA Facilitated Section 189 Consultation Process

22 November 2018

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WHERE WE ARE TODAY 1/2

Problem Statement: We have a very complex organisation and this is affecting the way we serve our clients. We need to simplify our business and move from business complexity to client simplicity							
Drivers for Change							
Internal Factors	<table><tr><td>Organisation & Culture</td><td><ul style="list-style-type: none">• Our complex historical heritage: The current BCX organisation was established as a result of the acquisition by Telkom followed by the integration of Business Connexion and Telkom Business which included the incorporation of all Business Connexion subsidiaries, spanning over 22 years of existence. Our current organisational structure makes it difficult to execute• Morale and engagement: The way that the company is organised (complexity) is not conducive to desirable engagement levels</td></tr><tr><td>Business Imperatives</td><td><ul style="list-style-type: none">• Declining margins: There is pressure on BCX to deliver services at a reduced cost with less complexity. The cost to income ratio of BCX last year was 82%. This cost base will increase – increasing the cost-to-income ratio to 87%. There is pressure on BCX to deliver services at a reduced cost or minimal increase, with less complexity</td></tr><tr><td>Client Requirements</td><td><ul style="list-style-type: none">• Poor client experience: Complex organisational structure, makes it difficult and costly to serve our clients efficiently. They aren't clear on the kind of value we can add to their organisations.</td></tr></table>	Organisation & Culture	<ul style="list-style-type: none">• Our complex historical heritage: The current BCX organisation was established as a result of the acquisition by Telkom followed by the integration of Business Connexion and Telkom Business which included the incorporation of all Business Connexion subsidiaries, spanning over 22 years of existence. Our current organisational structure makes it difficult to execute• Morale and engagement: The way that the company is organised (complexity) is not conducive to desirable engagement levels	Business Imperatives	<ul style="list-style-type: none">• Declining margins: There is pressure on BCX to deliver services at a reduced cost with less complexity. The cost to income ratio of BCX last year was 82%. This cost base will increase – increasing the cost-to-income ratio to 87%. There is pressure on BCX to deliver services at a reduced cost or minimal increase, with less complexity	Client Requirements	<ul style="list-style-type: none">• Poor client experience: Complex organisational structure, makes it difficult and costly to serve our clients efficiently. They aren't clear on the kind of value we can add to their organisations.
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WHERE WE ARE TODAY 2/2

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Our Objectives					
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Case for Change: As an organisation, we need to focus on operational excellence, in response to our current market place conditions. As the pace of change in our industry increases, so too must our ability to drive it.					

CHALLENGING OPERATING ENVIRONMENT

Revenue by vertical segments



Public sector remains under pressure

- > 32% of revenue
- > **Voice revenue** declined
- > **Public sector** spending delayed
- > **IT infrastructure** once-off deals not re-occurring



Enterprise revenue holding

- > 40% of revenue
- > Large **Enterprise revenue** is flat year-on-year
- > **Growth in Retail** and Financial Services
- > **Small-to-medium Enterprise** voice revenue under pressure

EBITDA = R1361M; < 30.7%

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BUSINESS RATIONALE – CASE FOR CHANGE 1/3

CASE FOR CHANGE

The company operates in an economic environment that has gone through a technical recession, reduced consumer demand and a poor economic outlook. Our customers are not immune to these challenges, which in turn, impacts on our business.

RATIONALE

The company has historically provided IT and telecommunication services to its customers, made up primarily of large business enterprises and the public sector.

In the telecommunication space, the voice business constitutes at least 50% thereof. The decline in voice revenues thus negatively impacts the overall financial position of the company.

The weak economy has led, amongst others, to a decline in the demand for the services offered by the company. The decline for services includes voice and related services, which have negatively impacted revenues, resulting in declining profitability.

Added to the above is the fact that the company also has a high cost to income ratio of 82%, representing R17b of its revenue, and in the absence of any interventions as proposed herein, it is expected to increase to R18.2b, in the next financial year, representing 87% of its revenue. This is not sustainable.

BUSINESS RATIONALE – CASE FOR CHANGE 2/3

The company also has competitors in all areas of its business, who generally offer their comparative services at more competitive rates and prices because of their lower cost structures, including employment costs. This has also negatively affected the company's business, revenues and profitability.

The changes in the regulatory environment are also likely to add more pressure on revenues. The recent announcement by ICASA in respect of termination rates is a case in point.

In order to arrest the decline in the company's deteriorating operational and financial performance, it has become necessary to reduce the operating costs, including employment costs, the latter which makes up the bulk of its cost base and structure.

As you might be aware, the company recently restructured its Executive Committee ("EXCO"), as part of the process of reducing costs and seeking new ways and ideas to improve operational and financial performance.

The company has also split the business into two operating entities, with each entity as a separate Profit and Loss Center:

- Information Technology, comprising of Digital Customer Experience, Digital Applications and Cloud Infrastructure (CITS); and
- Telecommunications, comprising of Voice, Data, Wireless and LAN Operations (CTS).

BUSINESS RATIONALE – CASE FOR CHANGE 3/3

The newly appointed EXCO members have prepared new organisational structures for the business areas within these two new entities for which they are responsible.

The purpose of this restructuring is to transform the organisation to a project driven organisation resulting in enhanced focus and coordination across the establishment, with improved ability to access resources, speed of execution and faster decentralised decisions. These changes should have a positive impact on the operational and financial performance of the company.

The newly designed organisational structures will, if implemented, result in the reduction in the number of positions required to operate the business, with a view to reducing employment costs and associated costs in general.

It is for the above reasons that the company is contemplating the dismissal of some of the employees.

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BENEFITS OF CHANGE

Our intended benefits of this transformation are:

A mobilised, engaged workforce working towards common goals

A scaling of our digital solutions

A growth in industry specific application

A growth in the profitability of managed services we deliver to customers



A project-driven organisation, with enhanced coordination, improved ability to access resources and faster decentralised decision-making

A streamlined portfolio of products and solutions

A slowdown in the decline of voice revenue

Create more focus on customer service by splitting Telecommunications Solutions (Voice, Data & Wireless) from IT Operations, with a P&L responsibility

A move from business complexity to client simplicity

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ALTERNATIVES CONSIDERED BY BCX

The company has over the past few years sought and implemented different ways to avoid the dismissals or reduce the number of employees likely to be dismissed. These include the following:

- The creation of a business and operating model focused on revenue improvement;
- The acquisition, disposal and merging of subsidiaries and companies which could enhance the revenue generating base and capabilities for the company;
- Curtailing external recruitment where practically possible;
- Not replacing retirees and those who have resigned where this is possible;
- Restriction and reduction of overtime;
- Voluntary Severance Packages and Voluntary Early Retirement Packages, (still to be discussed during the consultation meetings)

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SUMMARY OF CHANGES TO ENTIRE BCX – TOTAL NUMBER OF EMPLOYEES IMPACTED

- 8,047 employees in scope
- 139 new roles
- 790 affected employees

THE TIME WHEN, OR THE PERIOD DURING WHICH, THE RETRENCHMENTS ARE LIKELY TO TAKE EFFECT

- The restructuring process and contemplated dismissals will take place over a phased period. It is anticipated that the first group of employees whose dismissal cannot be avoided will be retrenched / leave the employment of the company on or about 28 February 2019.
- The second group of employees whose dismissal cannot be avoided are likely to leave the employ within a period of approximately six months after the conclusion of the first phase. The second phase will affect employees in the following areas of the business:

Human Resources Division

Finance Division:

- Accounts Payable
- Accounts Receivable
- Billing

Supply Chain Division:

- Category Management
- Procurement
- Warehousing & Logistics
- Facilities Management

IT Solutions Division:

- Enterprise Infrastructure Solutions:
 - CFC
 - SIM
 - Tech Connect
- Field Services
- Specialised Solutions:
 - Retail Solutions
- Enterprise Application Solutions:
 - SAP CoE

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PROPOSED METHOD OF SELECTION

- Qualifications, certification and professional registration (as required in the Job Description)
- Experience (as per job requirement/job description)
- Skills determined in structured competency-based interviews and psychometric assessments
- Employment Equity as a tie breaker where appropriate, taking into account the divisional and company's employment equity plan
- Last In First Out – LIFO, also to be used as a tie-breaker where appropriate, where it does not result in the unacceptable reversal of transformation initiatives and employment equity plans
- Employment Equity and LIFO may also be used in conjunction with each other where this is appropriate

PROPOSED APPOINTMENT PRINCIPLES

- Following the consultation sessions, the **proposed structures** and **job profiles** will be available on the intranet so that employees can easily view all the available opportunities
- On the structures, the jobs are colour coded as follows:
 - Blue : Changed role content
Number of positions right sized
 - Green : New position
 - Red : Unaffected role
 - Black border: Location changed
- Unaffected employees, those occupying red colour coded jobs (unchanged jobs) will receive letters confirming them in their jobs

PROPOSED APPOINTMENT PROCESS CONT.

- All the Blue, Green and Black Border jobs will be made available to all **affected** employees.
 - Blue : Changed role content
Number of positions right sized
 - Green : New position
 - Black border: Existing jobs where the locations has been changed
 - Red : Unaffected role
- Employees will be required to complete a pre-selection questionnaire on-line for each job they apply for. The pre-selection questionnaire will contain the required qualifications, experience, certification (if applicable) and professional registration (if applicable).
- Employees will need to add their preferred location (town/city) in order of preference.
- Employees will be required to attach a CV detailing the corroborating information provided in the pre-selection questionnaire.

PROPOSED APPOINTMENT PRINCIPLES- PHASE 1 STAGES

Stage 1 - Applications

- **Affected employees** can apply for a maximum of any **two jobs** and will be required to list the jobs in order of preference based on their best fit. This can be **same level and lower level job**. In order to be fair and provide equal promotional opportunities to all employees in the organization, no promotions will be allowed during this phase.
- Employees occupying unaffected or unchanged positions/roles shall not participate during this phase.

Stage 2 – Re-application

- Following the Stage 1 appointment process, all **remaining unfilled roles** will be made available to the **remaining unplaced affected** employees who can apply for a maximum of any **two jobs**, listing the jobs in order of preference. This can be **same level or lower level jobs**. Once again, no promotional opportunities will be allowed.
- **Note**: Unaffected employees (occupying red colour coded jobs and appointed employees) may not participate in any of the Stages of the appointment processes

PROPOSED APPOINTMENT PRINCIPLES - Cont.

- A maximum of three applicants per job (pre-selection questions and CV screening) will be shortlisted for the selection process.
 - Should there be a large oversupply of qualifying candidates, additional pre-selection tools can be used to shortlist the top three applicants. This will be the following:
 - Functional skills questionnaire and or
 - A functional skills case study
- The selection process will consist of
 - An interview (all grades)
 - and psychometric assessment (DU and higher jobs)
 - A 50% weighting each will be attached to the interview and the psychometric assessments and converted into a standard 10-point score
 - If there are more than one candidate with the same scores, EE will be applied followed by LIFO as a tie-breaker.
- Placements shall be done per grade starting with the highest grade first, followed by the next grade.
- The same selection, appointment and approval process will be followed during Phase 1 and Phase 2.

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PROPOSED DATES OF DISMISSALS

- It is proposed that unplaced employees in the new organisation will exit the organisation as at 28th of February 2019
- It is proposed that the new organisation comes to effect on the 1st February 2019

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RETRENCHMENT PACKAGES

BCX will offer severance packages to impacted employees which are above the Basic Conditions of Employment Act

	Basic Conditions of Employment Act	BCX
Notice period	<ul style="list-style-type: none">• Notice Period ~1 month of total remuneration (if worked for >1 year)<ul style="list-style-type: none">- Employed for 6-12 month: 2 weeks- Employed for <6 months: 1 week	<ul style="list-style-type: none">• <u>1 months irrespective of length of service</u>
Proposed Severance package	<ul style="list-style-type: none">• At least <u>1 week</u> of total remuneration for each completed year of continuous service	<ul style="list-style-type: none">• Severance gratuity based on one and a half (1½) weeks for every completed year of service or part thereof.

RETRENCHMENT PACKAGES (cont.)

Element	Company position
Leave days	all accrued leave due up to and including the last day of service will be paid
Medical Aid Cover	Membership of the BCX Group Medical Aid Scheme will terminate at the last day of service
Retirement Fund Contributions	The Retirement Fund rules shall apply
Tax Directive	Assist with the application of a Tax Directive. The onus will however remain that of the employees' to ensure that their tax affairs are in order
UIF	Assist with the completion of UIF documentation
Certificate of Service	Provide a Certificate of Service
Outstanding Debts	<p>Employees remain liable for all outstanding claims that BCX may have against them in terms of signed acknowledgements of debt.</p> <p>However, BCX will waive any training, maternity or relocation debt that the employee might have incurred.</p>

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EMPLOYEE ASSISTANCE (cont.)

BCX will provide the following reasonable assistance:

- Not requiring employees to serve all or part of their notice period in order for employees to be able to look for other employment
- Waiving of any restraint of trade restrictions in as far as it relates to working for suppliers, clients and/or competitors. Any confidentiality and non-solicitation restrictions will however remain intact
- Allowing employees reasonable time off to attend interviews (up to 2 hours off per day during the notice period, for up to a maximum 8 hours a week)

EMPLOYEE ASSISTANCE (cont.)

We will engage with service providers to provide affected employees with a set of services to mitigate the impact of the transition



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POSSIBLE FUTURE RE-EMPLOYMENT

- Given the long-term focus of BCX's turnaround strategy, it is not contemplated that the company will in the foreseeable future be in a position to offer re-employment to any of the retrenched employees.

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NUMBER OF EMPLOYEES CURRENTLY EMPLOYED BY BCX

- BCX currently employs approximately 8,047 employees as at September 2018

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EMPLOYEES DISMISSED ON OPERATIONAL REQUIREMENTS DURING THE PAST 12 MONTHS

- BCX has dismissed 5 employees for reasons based on its Operational Requirements in the past 12 months

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