



Washington Area Compensation and Benefits Association

Going Global: Trends and Issues in Global Compensation

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Discussion Outline

- Why Are Companies Going Global?
- Approaches to Global Design
- Governance
- Challenges
- Lessons Learned in Global Compensation Design
- Case Study

Why Are Companies Going Global?

Frequently Asked Questions

- What local compensation/benefit programs are required to be competitive and/or compliant?
- How should we allocate global reward investments (base pay, annual and long-term incentives) in support of our strategy?
 - What blend of programs should we offer?
 - Who should participate?
 - How much is required to be competitive, how much is too much?
- What is a competitive expatriate package?
- How can we compare employee populations across international borders and diverse job functions?
 - Straight salary or job title comparisons are often inadequate

Why Are Companies Going Global?

Frequently Asked Questions

- How can we describe/determine career growth opportunities across diverse operations?
 - How will a hiring manager know that an international transfer constitutes a promotion?
 - How can we best determine appropriate compensation in the case of a localization?
- What are some alternatives for determining appropriate pay in the absence of external market data for some jobs?
- “I have employees in (*insert obscure country here*)...”
 - ...how do I determine an appropriate offer, what are the typical components of rewards, what is the right merit budget?

Why Are Companies Going Global?

Business Drivers of Global Compensation

- Alignment – Competing globally requires a cascade from organizational business imperatives through the employee value proposition and total rewards strategy and ultimately to compensation program design
- Governance – Regulation and increasing complexity require organizations to get better at risk management, decision-making, and knowledge sharing
- Cost Management – Globalization, competition and economic conditions are placing pressure on margins, increasing need to manage human capital costs
- Efficiency – Globally consistent programs are easier to administer, facilitate quick and accurate reporting and analysis, and allow companies to leverage investments in technology
- Quality – Global scale allows development of compensation centers of excellence
- Talent Mobility – Leveraging a global workforce to get the right people to the right place at the right time
- Complexity – Managing the employees of a global organization requires more sophisticated infrastructure

Why Are Companies Going Global?

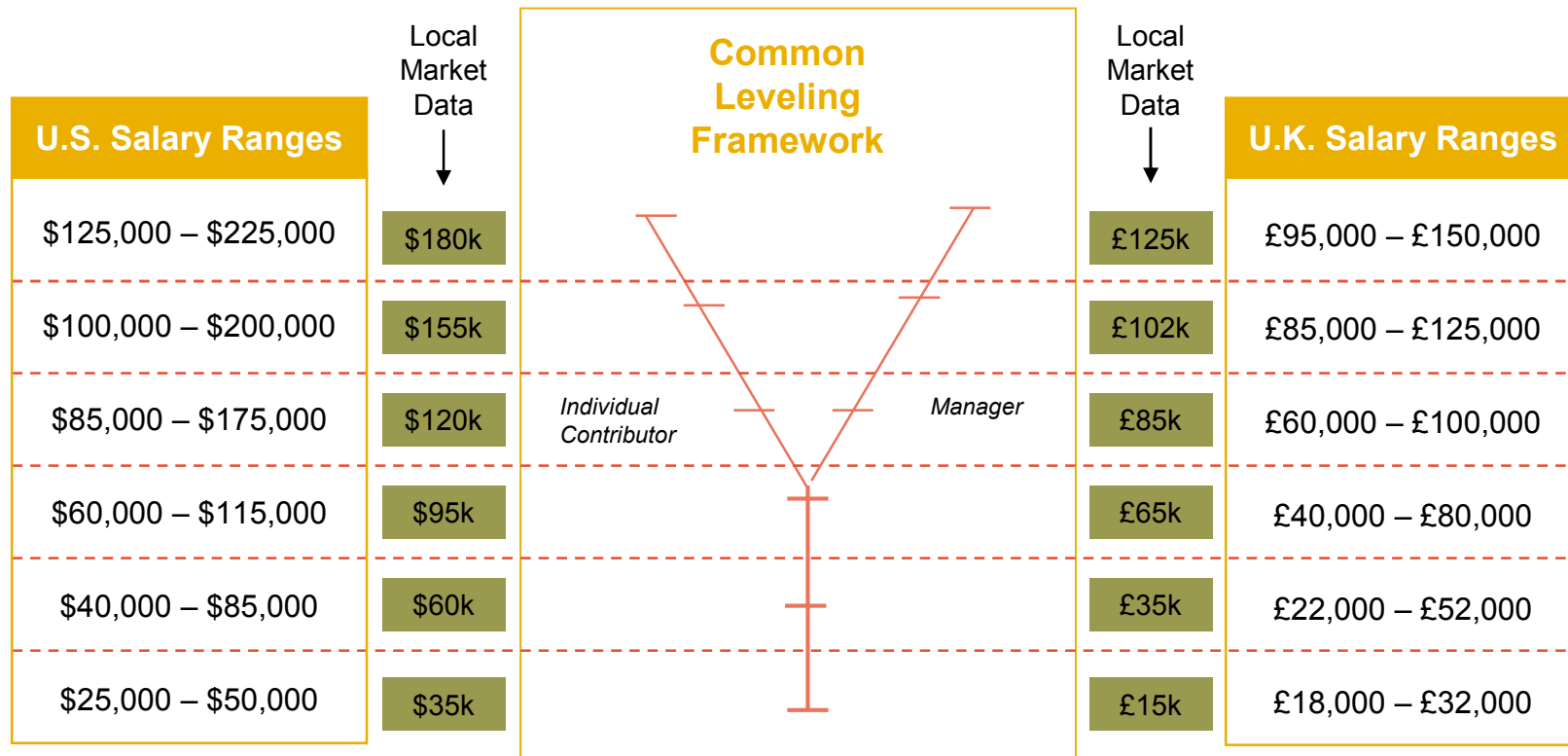
Cost Management - The Returns on Managing Compensation Globally

Assumptions	
# Employees	50,000
Average Annual Salary	\$50,000
Total Annual Payroll	\$2,500,000,000
% Employees Underpaid	10%
% Employees Overpaid	10%
% Overpaid versus Market	20%
% Underpaid Employee Turnover	30%
Turnover Cost (1-2.5 x salary)	1.75
Cost of Ineffective Compensation Management	
Overpaying	\$50,000,000
Underpaying	\$131,250,000
Total Cost	\$181,250,000

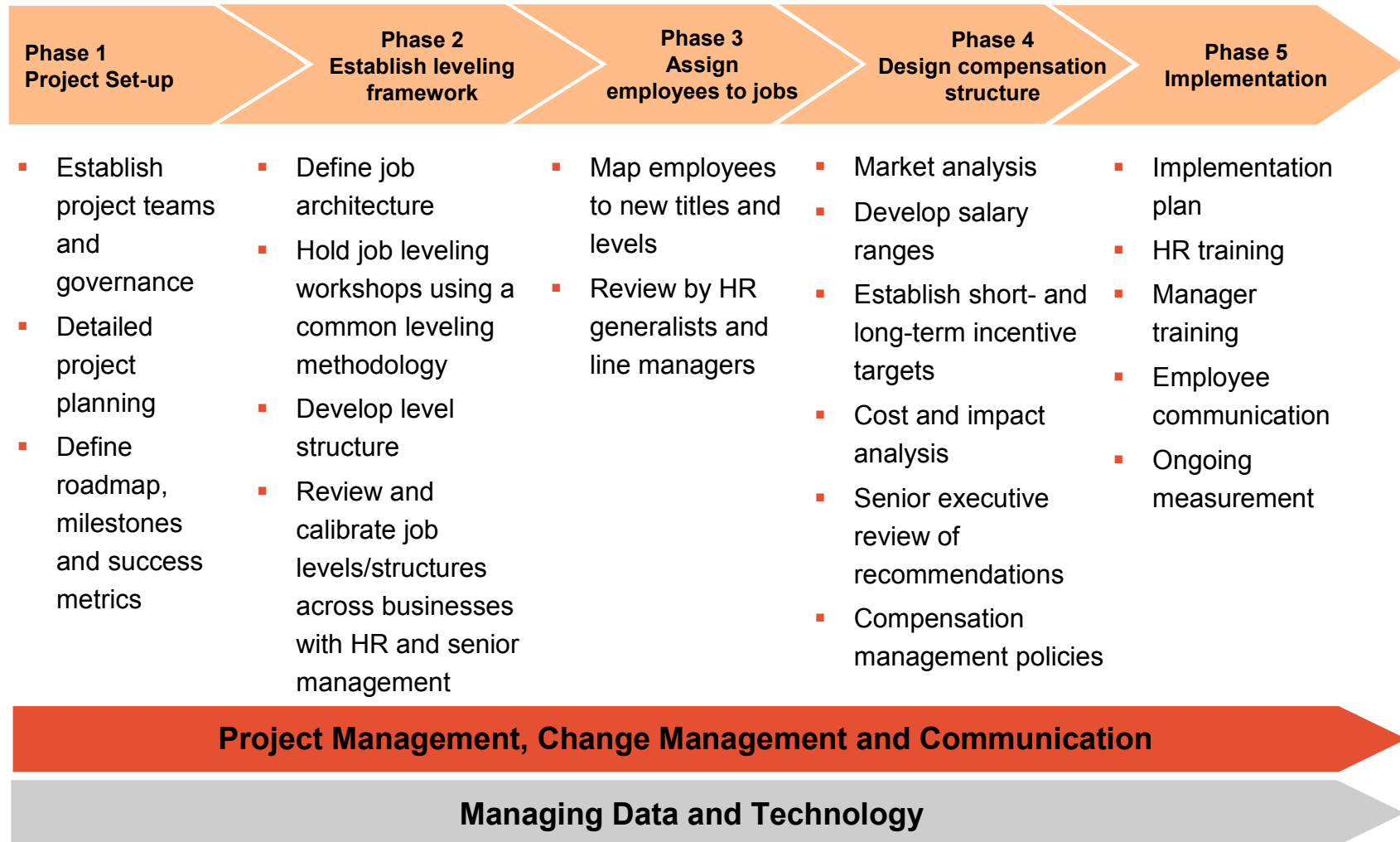
Approaches to Global Compensation Design: Global Job Architecture and Leveling

- A global job architecture and leveling protocol is the foundational *sine qua non* for efficient global reward and talent management
- It provides a mechanism for allocating reward investments in support of an organization's reward strategy
- Global leveling provides transparency and a common organizational language, which are key to:
 - Ensuring internal equity: which roles are comparable?
 - Career and competency development: what do career paths look like?
 - Talent mobility and succession planning: where does key talent reside, and what opportunities are available across the organization?
 - Understanding the staffing model: what are the implications for job design, span of control, and responding to changing business processes?
 - Workforce planning: what kind of talent will the organization need, and where should it focus its recruiting and development efforts?

Approaches to Global Compensation Design: Using a Global Leveling Framework to Develop a Global Salary Structure



Approaches to Global Compensation Design: Adopting a Global Program Requires a Structured Project Plan



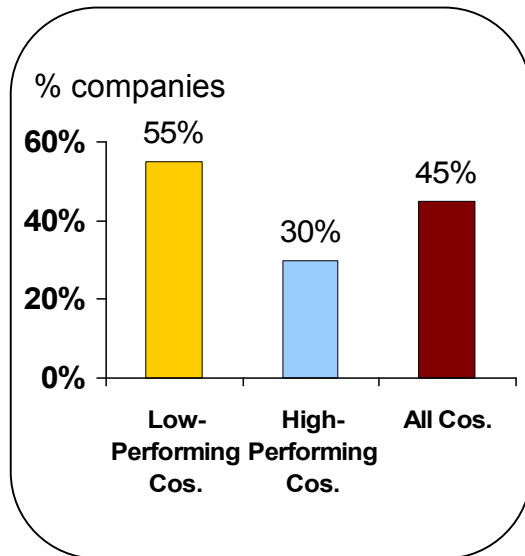
Approaches to Global Compensation Design: The Role of Communication and Change Management

- Integral and strategic part of any global compensation project
 - Must have visible senior leadership support
- Key to ensuring understanding of:
 - Total reward philosophy in local context
 - Program objectives and mechanics
 - Link to business strategy
 - Alignment with local practices and legislation
 - Employee and manager roles in new program
- Successful communication and change management program can:
 - Build and reinforce common culture
 - Establish employee interests to align with those of shareholders
 - Build acceptance of new plan designs across company businesses and geographies

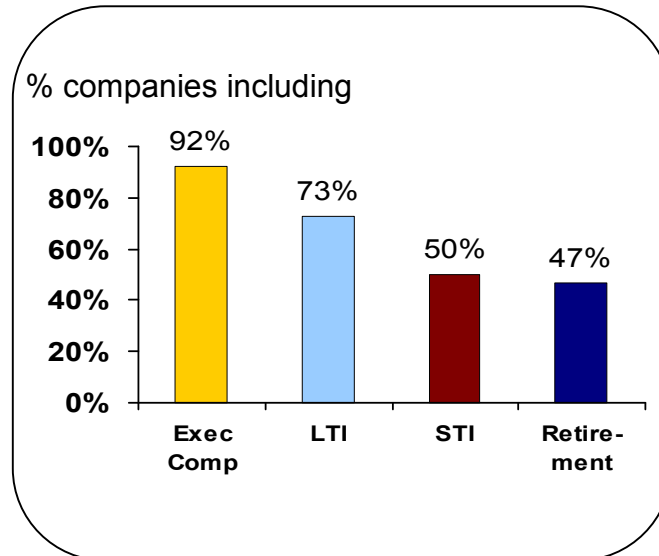
What is Global HR Governance?

Governance helps companies manage the legal and financial risks associated with HR plans and programs around the world by providing the principles, processes and tools for sound, actionable decision-making.

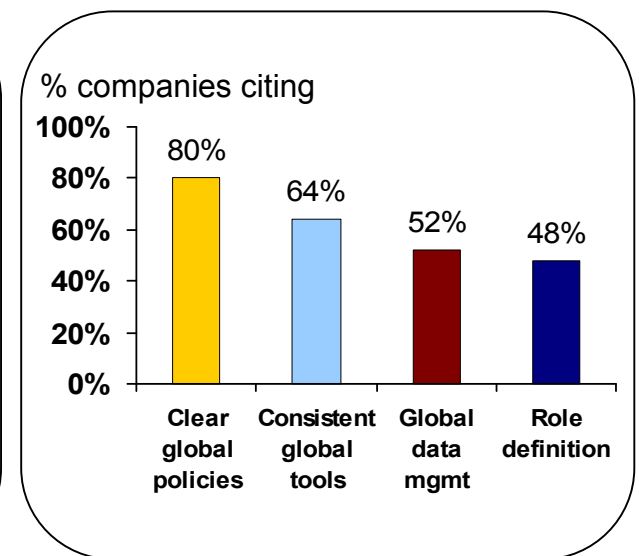
Prevalence of formal governance



Programs included in formal global governance

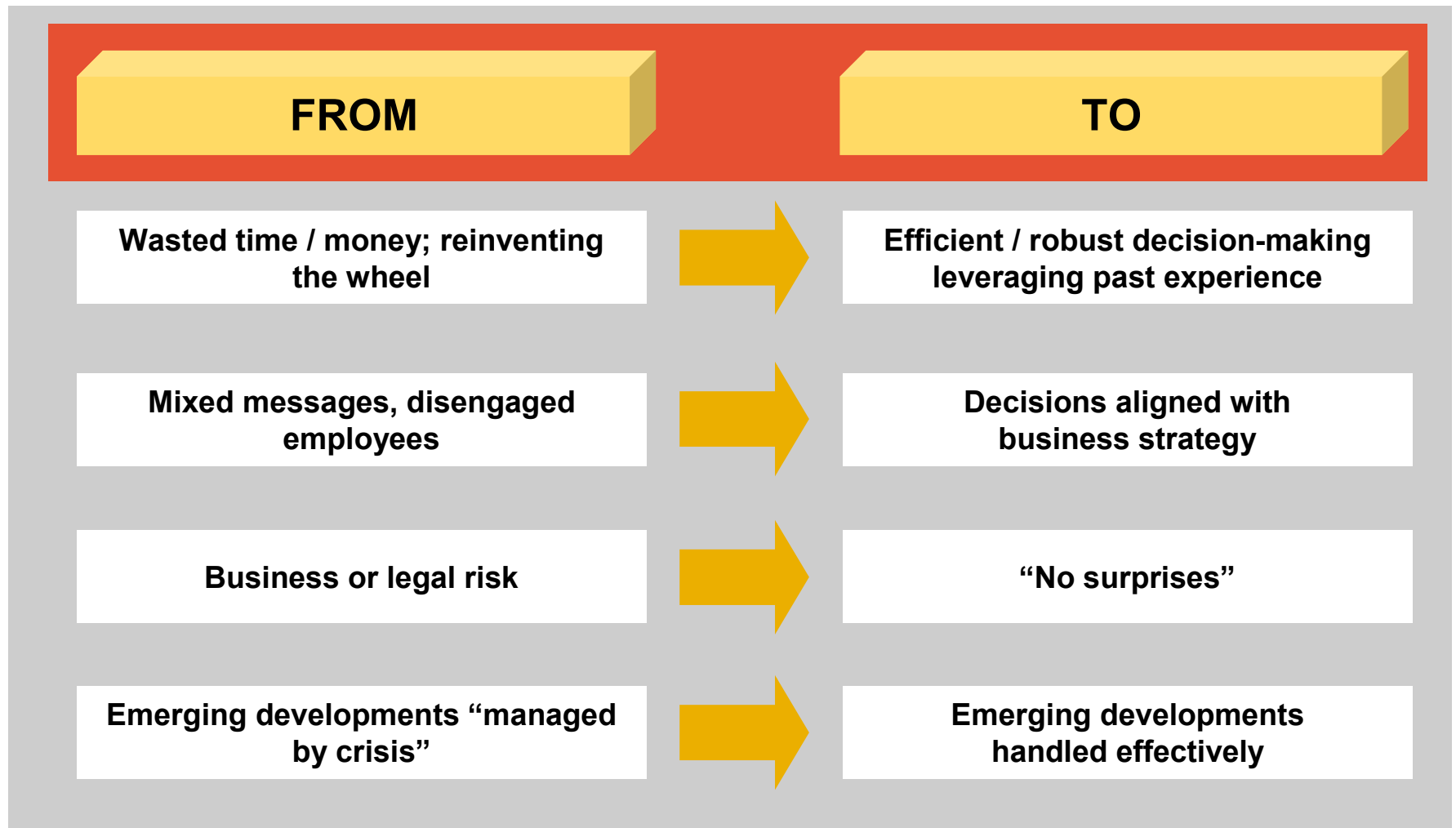


Most important activities to improve governance



Source: Towers Watson research

The Returns on Global Governance



A Global Oversight Framework Helps Ensure Success



Typical Elements Included in Global Rewards Governance Structure

EXAMPLE

Corporate Compensation Programs

Control Points	Definition/ Function	Purpose/ Impact	LOB Authority to Customize	Responsibility	Approval
Level Assignments	<ul style="list-style-type: none"> Evaluate internal value placed on all jobs and establish peer relationships 	<ul style="list-style-type: none"> Establish framework for reward and talent management design and investment decisions 	<ul style="list-style-type: none"> Calibration of levels for LOB-specific roles 	<ul style="list-style-type: none"> Corporate Compensation 	<ul style="list-style-type: none"> HRSEVP BU CEOs CFO
Performance Measures	<ul style="list-style-type: none"> Determines measures that drive corporate, business unit, division and individual payouts 	<ul style="list-style-type: none"> Supports achievement of organizational objectives, verifies line-of-sight measurability 	<ul style="list-style-type: none"> None 	<ul style="list-style-type: none"> Shared; Executive Management determines plan performance measures; Corporate Compensation and Finance review and surface measurement issues 	<ul style="list-style-type: none"> Comp Comm CEO CFO HRSEVP
Performance Levels	<ul style="list-style-type: none"> Defines the various levels of financial and non-financial performance for each variable pay plan measure 	<ul style="list-style-type: none"> Impacts funding, achievement of organization goals and plan payouts 	<ul style="list-style-type: none"> None 	<ul style="list-style-type: none"> Shared; Finance and Executive Management determine financial targets; Corporate Compensation and Finance review for alignment with business objectives 	<ul style="list-style-type: none"> Comp Comm CEO CFO HRSEVP
Design Approval Process	<ul style="list-style-type: none"> Defines organizational level at which compensation plans will be approved 	<ul style="list-style-type: none"> Ensures appropriate oversight and review of compensation plans 	<ul style="list-style-type: none"> None 	<ul style="list-style-type: none"> Corporate Compensation 	<ul style="list-style-type: none"> CEO Shareholders (equity)

Challenges of Going Global

- Many global companies are decentralized in their operations
 - Need clear business case for centralizing compensation
 - “What’s the ROI?”
 - “What’s in it for me?”
 - Implications for organizational structure / reporting relationships
 - Stakeholder involvement essential to gaining buy-in to centralization
 - “Push out” or “pull in” strategy
- Change management, communication, and governance critical to acceptance, understanding and success

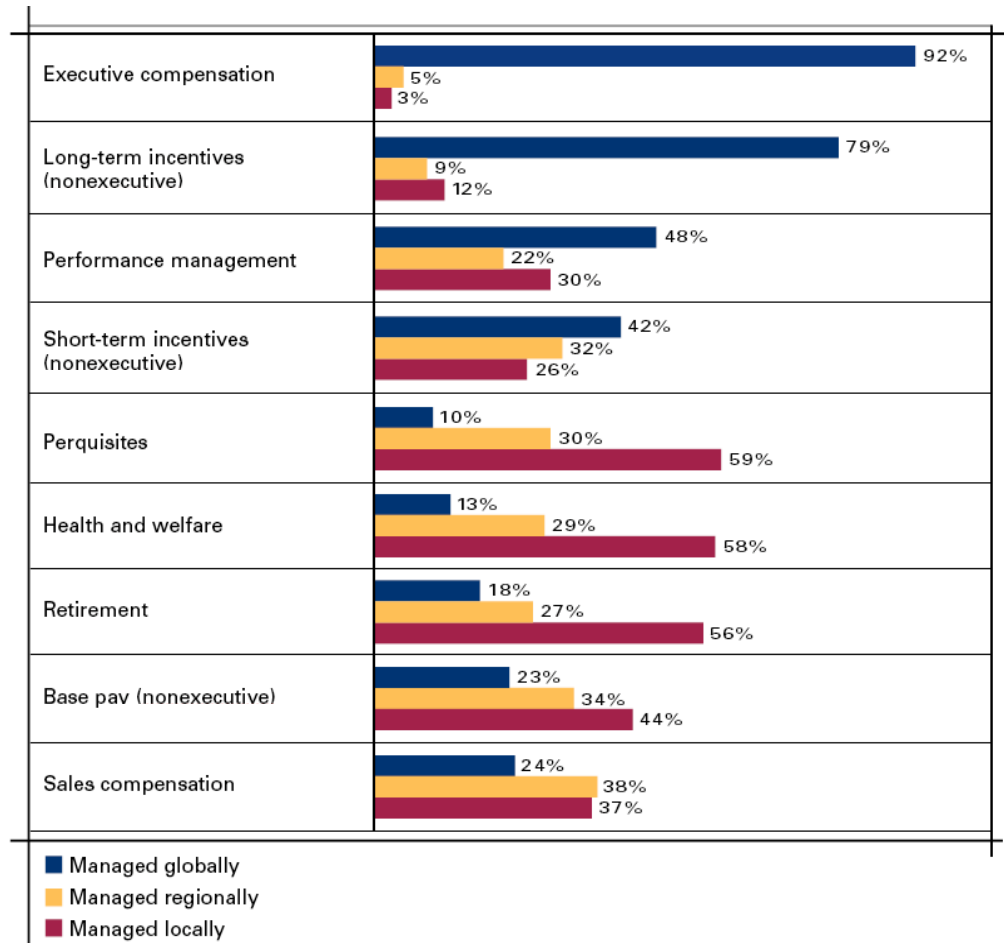
Challenges of Going Global

- Developing global programs that are culturally neutral
 - Tendency to be headquarters country-centric
- Adopting a global approach often represents significant change
 - In a decentralized environment, this may involve choosing from a range of current approaches
 - Established organizational cultures will have different cultural norms and performance orientations
- Striking a balance between global consistency and adaptation to local conditions is key
 - Different business units/geographies will be at different stages of performance and maturity and may require different metrics
- A range of stakeholders & issues must be considered
 - Local pay practices and market conditions
 - Local regulations such as pay equity laws
 - Unions and other employee organizations

Challenges of Going Global: Balancing Global Consistency and Local Relevance

- Global management
 - Executive compensation
 - LTI for non-executives
 - STI for non-executives
 - Performance management
- Local management
 - Perquisites
 - Health and welfare benefits
 - Retirement
 - Base pay
- Mixed
 - Sales compensation

Ideal design is a mix of global, regional and local management



Source: Towers Watson research

Global Consistency vs. Local Relevance: Understanding Compensation Investments and whether They Reflect an Optimal Balance of Employee Preferences and Costs

EXAMPLE

XYZ Compensation Programs with Greatest Employee Impact

	Marginal utility scores*					Degree of Impact (1 is high, 9 is low)							
	0%	5%	10%	15%	20%	25%	Bands 35-45 Overall	Australia	Spain	UK	India	Mexico	US
Annual Merit Increase	19.20%						1	1	1	1	1	1	1
Short-Term Incentives	15.50%						2	2	2	3	4	2	2
Base Salary - One-Time Increase	15.30%						3	3	5	2	2	5	3
Long-Term Incentives	13.50%						4	5	3	5	3	3	4
Vacation (Holidays)/ PTO	12.30%						5	4	7	4	8	7	5
Career Development	9.30%						6	6	4	6	5	4	7
Flexible Work Arrangements	9.00%						7	7	6	7	7	6	6
Recognition	5.50%						8	8	8	8	9	8	8
Hospitalization Plan (INDIA ONLY)	0.40%						9	n/a	n/a	n/a	6	n/a	n/a

*Marginal utility — A measure of the relative preferences for each reward at each level. Utilities have meaning only in comparison with one another. Sum of all utilities=100%.

Challenges of Going Global: Communication is Key

- Of companies with a global total rewards strategy, only half have a strategy for communicating it
 - According to Towers Watson's *Communication ROI* research, companies that communicate effectively not only have a strategy for communicating total rewards, but “package” those rewards appropriately to attract and retain top talent
- When communicating their strategy, 77 percent consider local customs and cultures to a moderate or great extent
 - This is a *Communication ROI* best practice

Opportunities are lost when global total rewards strategies are not communicated effectively

“It’s a Marathon, Not a Sprint”

Lessons from Global Compensation Design Initiatives

Top 10 Lessons from Global Compensation Design & Implementation Projects

1. Obtain global agreement up front on key objectives and deliverables
2. Address BU- or region-specific goals -- avoid one size fits all
3. Secure executive support -- use a business case to ensure executives and line managers see value of envisioned outcomes
4. Know the limitations of your existing global job data
5. Ensure HR team members who are familiar with job families actively participate in job family workshops
6. Make the approach global -- avoid home-country- (Corp HQ) or US-centric designs
7. Allow flexibility in ongoing management of compensation to align with BU-specific market needs
8. Expect that there will need to be compensation adjustments to address market and below-min concerns
9. Agree project management protocols and governance for decision making
10. Achieving global consistency is not difficult, but the change management and communication is key



Case Study: Global Financial Institution

Global Compensation Alignment Project

Project Rationale

The case for change:

- Compensation infrastructure had not kept up with pace of acquisitions; multiple compensation structures persisted across legacy businesses
- Compensation management processes were inconsistent and duplicative
 - Inefficient; hindered optimal resource allocation
- Inconsistent and overly complex job architecture
 - Thousands of unique job titles (many unused or redundant) and multiple leveling protocols served as barriers to internal equity and analysis and obscured career development opportunities
- Lack of clarity affected employees
 - Unclear career paths and compensation opportunities
- Current practices created difficulties in transferring employees across business units
 - Deterred talent mobility and undermined capability for growth

Project Objectives

- Build a “one-firm” culture and mentality across many acquired businesses and global footprint
- Common compensation philosophy that aligns with business objectives
- Adopt common job architecture and career paths
 - Will support talent mobility across business units
- Adopt global compensation structure that spans all jobs from non-exempt through executive
 - Structure supported by a common job leveling methodology
- Consistent link to local talent markets
- Common vocabulary around compensation programs
 - Job functions, job families, job titling protocol

Project Objectives (continued)

- Greater clarity around career and compensation opportunities
- Consistent policies and practices
- Streamlined compensation administration
 - Supported by common processes and Web-based tools
- Global rollout over two years

Project Structure

- Project sponsorship from business unit executive teams
- HR Council leadership and oversight
- Steering Committee
 - Senior compensation leads
- Project Team
 - Compensation teams from each business unit

Communication Goals

- Deliver timely, high impact communication
 - Connect this initiative with business strategy
- Ensure high visibility of support from business leaders
 - It was critical that this initiative be perceived as having the support of top management and all business leaders
- Enlist support of additional levels of management
 - Cascade information through the organization
- Support managers with training and education
 - Inform managers of their role, what is being asked of them
 - Provide updates
- Create employee awareness and understanding of enhanced opportunity for career mobility
 - Clearly convey career and compensation opportunities
- Reinforce over time through performance management, compensation delivery, and career development

Implementation Challenges

- Difficult to gain senior line management support or involvement
- Challenges migrating BUs from legacy plans to single common design
- Ensuring plan designs resonated across all geographies and weren't perceived as US-centric
- Unanticipated organizational issues (e.g., restructuring, downsizing)
- Extremely disparate legacy pay practices
- Industry tumult