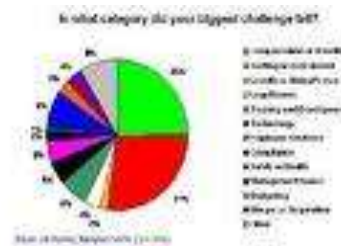


MBA – HRM

Compensation & Benefits



Compensation Policy Issues

Survey Question

- Rate 1 – 7 (7 highest)

Q1 - Are you happy with the Compensation package from the company ?

Q2 – Which components of the Com and Benefit package that you are really not happy with ? And Why ?

[www. Menti.com](http://www.Menti.com)

Compensation Policy Issues

- Pay for performance
- Pay for seniority
- The pay cycle
- Salary increases and promotions
- Overtime and shift pay
- Probationary pay
- Paid and unpaid leaves
- Salary compression
- Geographic costs of living differences

Hygiene Factor

Compensation & Benefit (C & B) - Purpose



- C&B – at the **core** of employment relationship
- Comparative and Competitive
 - **Attract/Retain** - Best talent & Potential qualified expats
 - Facilitate **transfer** - EE locations & functions
- **Consistent process** :
 - to build reasonable / **fair** relationship between CB of EE: all facilities (local / aboard)
- **Balance**
 - **Cost of labour** / Productivity / market dynamics >> healthy bottom line

Job Evaluation Methods: Point Method

- A quantitative technique that involves:
 - Identifying the degree to which each compensable factors are present in the job.
 - Awarding points for each degree of each factor.
 - Calculating a total point value for the job by adding up the corresponding points for each factor.

Grading - Bands

Band	Grading (1-10)	Com / Ben	Title	Division	Country	Key Functions	General
A	1 2 3 ... 10	250K – 1.6M G-A Ben package	CEO COO CFO	Global Division HEAD			
B	1 2	100K – 250K G-B- Ben			T1 HEAD - China, India		
C	1 2				T2 Head (AUS, JPN)	T2 VP Fin T2 VP T1 - Director	
D	1 2					VP HR	HR Mgr
E							
F							
G	1 2 ...						Techician

Basic Principles of Compensation Management



Total Rewards Is More Than Just 'Pay'

Cash

Fixed Pay

- Base Salary
- Allowances

Variable Pay

- Short-term
- Long-term

Others

- Merit Increase
- Special Increase
- Savings Plan

Kind

Benefits

- Paid leaves
- Group Insurance
- Social Insurance
- Pension
- Savings
- Housing
- Childcare

Perquisites

- Car
- Driver
- Club
- Yacht / Plane
- Housing
- Children's education

Experience

- Company Brand
- Job
- Leadership & Culture
- Training / Development
- Career Growth
- Communication
- Recognition
- Environment

Expatriate :

Others Kind ?

What to Pay For?



Time



Knowledge/Skills



Behaviors



Results

Presence

Capability

Commitment

Achievement

SALARY

INCENTIVES
Expect to stay

Factors to consider when making pay decisions

- Employee's performance (Relative Performance Assessment)
- Salary increment matrix
- Position within salary range (Internal equity)
- Market rates (External competitiveness)



Performance Grouping – Relative Performance Assessment

Outstanding	Exceeds Expectations	Meets Expectations	Needs Improvement	Unacceptable
Peter	Jane Mark David	Emily Cynthia Natalie Chris Mandy Michael	Caleb Kylie	Kathryn



Salary Increment Matrix - sample

FY20XX Salary Increment Matrix

Division:

Sample Market Unit

Budgeted increase %

7.0%

Normal distribution

Performance Rating	
1 - Outstanding	8.5% - 10%
2 - Exceeds Expectation	6% - 7%
3 - Meets Expectation	5% - 6%
4 - Needs Improvement	0.0%
5. Unacceptable	0%
6 - Not Rated (too soon to rate)	Management Discretion - depending on individual performance and remuneration level against the market

Equity and Its Impact on Pay Rates

- The equity theory of motivation
 - States that if a person perceives an inequity, the person will be motivated to reduce or eliminate the tension and perceived inequity.
- Internal Vs External Equity

Internal Equity



- Equity
 - Employees' perception of fairness & consistency
 - Employees may increase or decrease their contribution
 - Employees may stay or quit based on their perception
- Internal Equity
 - Relative value of jobs and their pay rates
- Premise on critical data of each job
 - Nature of work (duties & responsibilities)
 - Level of work (skills, efforts, complexity)

External Equity Competitiveness

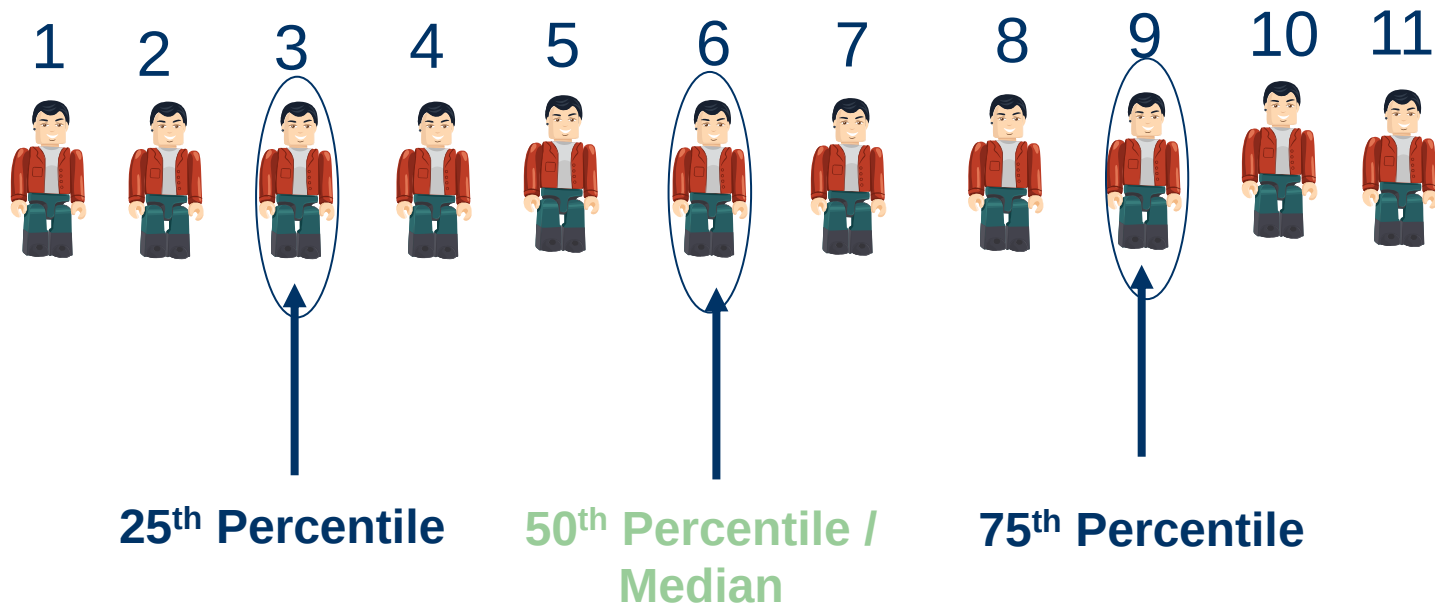


- **Its competitors** Vs Measure a company's pay levels
- **Market pricing** - principle (EE feel equal or more)
 - Underpaying can lead to **losing talent**
 - **Overpaying** can be very costly – Multiple years offset
- **Market benchmarking**
 - **Right Job Match** - Title Match, Content Match
 - **Right Job Size** - Organisation Size, Job evaluated size
 - **Data Accuracy/Reliability** – Companies, Sample size, Data aging

What is the Company salary position ?

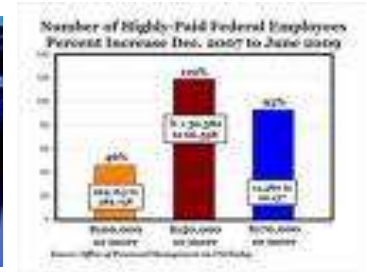
Median, Mean & Percentiles

Median – arranging a list of values from low to high and then selecting the one in the middle



TARGET – CORP. compensation policy -> 50th percentile

Compa-Ratio



- The **Compa-Ratio** of an employee's salary reflects individual pay positioning Vs Salary Range mid-point
- A Compa-Ratio of 1.00 means that the employee is paid market going rate
- A Compa-Ratio of less than 1.00 means the employee is paid below market going rate
- A Compa-Ratio of more than 1.00 means the employee is paid above market going rate

Compa-Ratio

Calculate External Compa-Ratio:

$$\frac{\text{Actual Salary}}{\text{Market Benchmark Reference}}$$

$$\frac{\$20,000}{\$21,000}$$
$$\text{External compa-ratio} = 0.95$$

COMPANY considers a competitive salary is 90% - 110% of the mid point for that position

(Problem — same job pays differently in different industry group)

* IT engineer in Industrial Group Vs IT engineer in IT Group ?

Adjustment - Salary Increment Matrix - sample

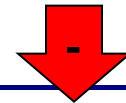
FY20XX Salary Increment Matrix

Division:

Sample Market Unit

Budgeted increase %

7.0%



Performance Rating	Compa ratio (CR) *		
	Zone 1 CR Below 90%	Zone 2 CR Between 90% and 110%	Zone 3 CR Above 110%
1 - Outstanding	9% - 10.5%	8.5% - 10%	8% - 9.5%
2 - Exceeds Expectation	6.5% - 7.5%	6% - 7%	5.5% - 6.5%
3 - Meets Expectation	6% - 7%	5% - 6%	4% - 5%
4 - Needs Improvement	1% - 2%	0.0%	0.0%
5. Unacceptable	0%		
6 - Not Rated (too soon to rate)	Management Discretion - depending on individual performance and remuneration level against the market		

Pricing Managerial / Professional Jobs

- Compensating managers
 - Base pay: fixed salary, guaranteed bonuses.
 - Short-term incentives: cash or stock bonuses
 - Long-term incentives: stock options
 - Executive benefits and perks: retirement plans, life insurance, and health insurance without a deductible or coinsurance.

Pricing Managerial / Professional Jobs

- What Really Determines Executive Pay?
 - CEO pay is set by the board of directors taking into account factors such as the business strategy, corporate trends, and where they want to be in a short and long term.
 - Firms pay CEOs based on the complexity of the jobs they filled.
 - Boards are reducing the relative importance of base salary while boosting the emphasis on performance-based pay.

What Is Competency-based Pay?

- Competency-based pay
 - Where the company pays for the employee's range, depth, and types of skills and knowledge, rather than for the job title he or she holds.
- Competencies
 - Demonstrable characteristics of a person, including knowledge, skills, and behaviors, that enable performance.

Why Use Competency-Based Pay?

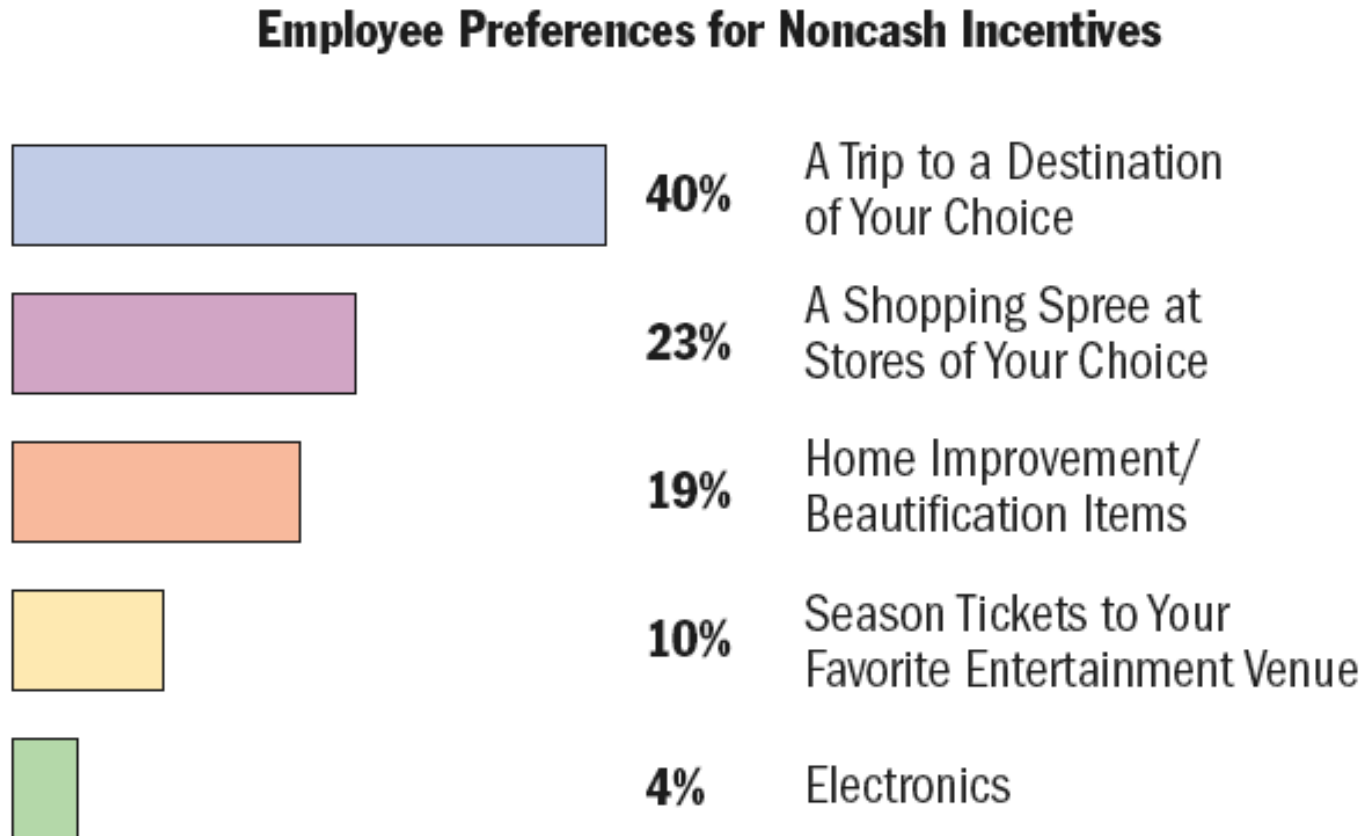
- Traditional pay plans may actually backfire if a high-performance work system is the goal.
- Paying for skills, knowledge, and competencies is more strategic.
- Measurable skills, knowledge, and competencies are the heart of any company's performance management process.

Pay for Performance and Financial Incentives

Motivation, Performance, and Pay

- Incentives
 - Financial rewards paid to workers whose production exceeds a predetermined standard.
- Law of individual differences
 - The fact that people differ in personality, abilities, values, and needs.
 - Different people react to different incentives in different ways.
 - Managers should be aware of employee needs and fine-tune the incentives offered to meets their needs.
 - Money is not the only motivator.

Employee Preferences for Noncash Incentives



*The survey polled a random nationwide sample of 1,004 American adults. Among those polled, 851 were working or retired Americans, whose responses represent the percentage cited in this release. The survey was conducted June 4–7, 1999, by Wirthlin Worldwide. The margin of error is $\pm 3.1\%$. Responses total less than 100 because 4% responded “something else”.

Types of Incentive Plans

Individual – Team

- Pay-for-performance plans (Variable)
 - Individual incentive/recognition programs
 - Sales compensation programs
 - Team/group-based variable pay programs
 - Organizationwide incentive programs
 - Executive incentive compensation programs

Compensation & Benefit (C & B)

- Impacts - Functions and Activities

Why do different staffs earn different amounts ?

- Nature of Jobs
- Length of service,
- Age, qualification, Grading
- Difference performance level
- Potentials
- **OTHERS :** _____



Other factors – drive this differences ???

Share / Share Options

Types of equity compensation

ESOP: EE share ownership plan	Gives employees shares of company stock (as bonus, or profit-sharing plan) – usually redeemable when they leave the company
ESPP: EE share purchase plan	Gives employees an opportunity to purchase company stock (deduct from payroll with a cap % of salary)
Stock or call options	Grants certain employees the right to receive or purchase company shares at a specific price (vesting period)
SAR: Stock Appreciation Right	Awards a grant to the employee, but no benefit unless stock appreciates (vesting period)
Phantom stock	Simulated equity plan that grants employees fictitious stock units (no transaction, no dilution...) (Huawei – in China)

Basic – Share Options

Share Option # : EMR172341_A

Share Option Issuance date : Jan 1, 2010

Valid: Jan 1, 2020 (10 years)

No. of Share Option : 10,000

Exercise price : USD 10.00

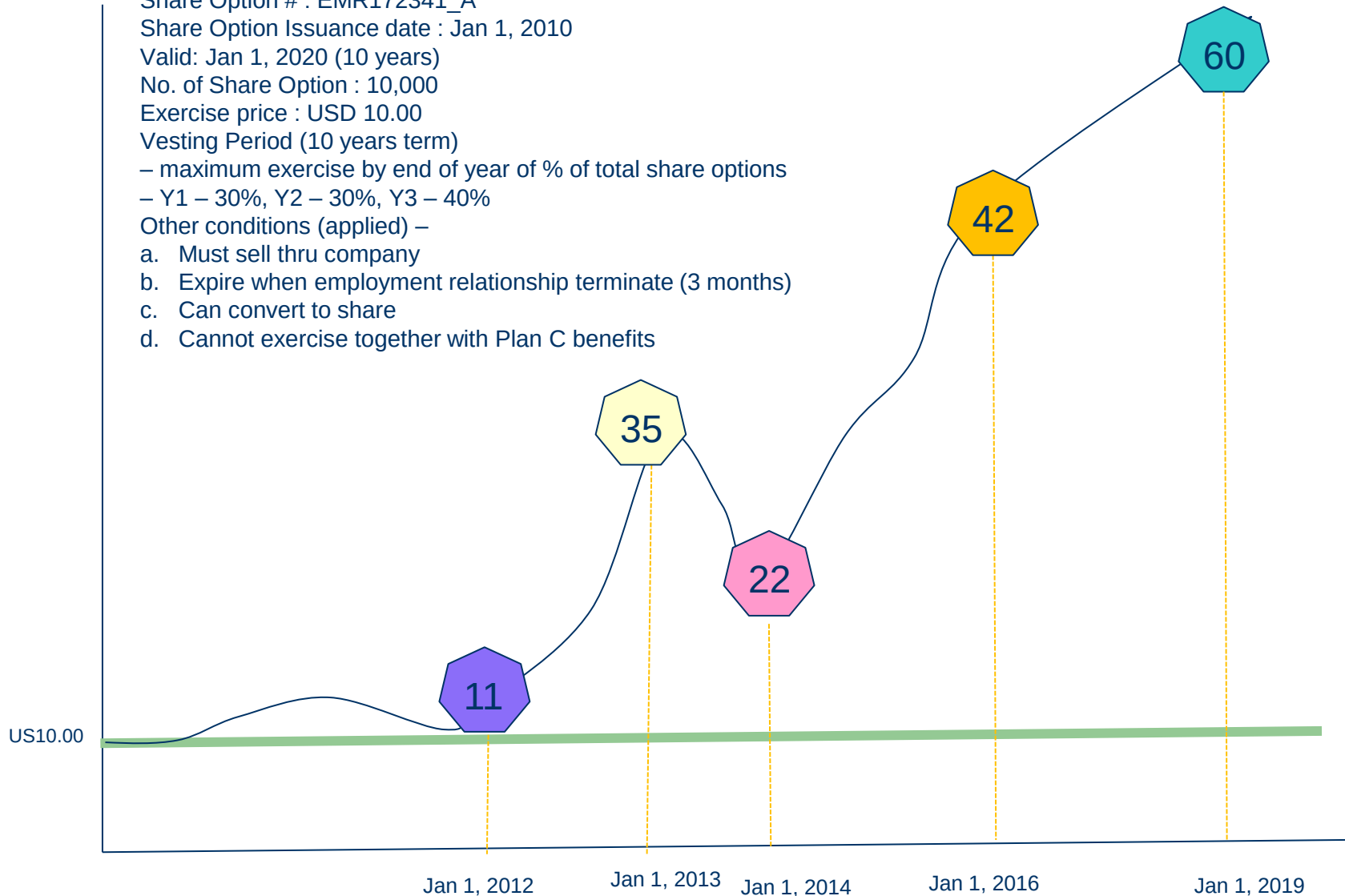
Vesting Period (10 years term)

– maximum exercise by end of year of % of total share options

– Y1 – 30%, Y2 – 30%, Y3 – 40%

Other conditions (applied) –

- Must sell thru company
- Expire when employment relationship terminate (3 months)
- Can convert to share
- Cannot exercise together with Plan C benefits



IHRM – Compensation & Benefit (C&B)

Key Topics :

- 1. Design of International Compensation**
- 2. Strategic Aspects of International Compensation**



Int'l Compensation & Benefit (C & B)

- Challenges to IHRM



Equity compensation considerations



- Qualified or non-qualified plans
 - China – cannot own the US options, so need to set up EE Stock Plan Fund Adm to hold options for employees
- U.S. accounting rules for stock options
 - Tax, expenses, financial booking (SGA)
- Tax rules and currency exchange restrictions
- Local adaptation
- Global stock plan administrator

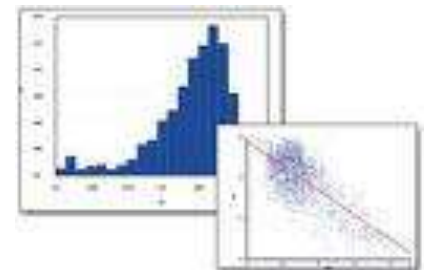
Approaches to IA compensation

- Negotiation
 - Few IA, baseline - cascading effects
- Localization
 - IA relocate permanently,
 - Turn to localize term when IA term ends
- **Balance sheet (most common used)**
- Other approaches
 - Lump sum – overall amount to Expat (no restriction)
 - Cafeteria – Bench of choices (selective to meet overall amount)
 - For Executives levels (car, house, trip, insurance,..) not increasing the income.. (tax !!)
 - Regional systems / Global systems – specific to set of standards



Balance sheet approach

- Favored in the U.S.
- Replication of home lifestyle in the home country
- Based on four components
- Home or host country approaches



Expatriate Pay – examples

Balance sheet Approach

		Income taxes		Income taxes		
		Housing		Additional		Premiums and incentives
Income taxes				Housing		Income taxes
Housing		Goods and Services		Additional		Housing
Good and Services				Good and Services		Good and Services
discretionary		discretionary		discretionary		discretionary
Home Country	Host Location		Host location cost shared EE/Co		Home Country Eqv. Purchasing power	

The 10 most expensive cities in the world in 2020



The ten most expensive cities in the world

Country	City	WCOL index (New York=100)	Rank	Rank movement
Switzerland	Zurich	103	1	4
France	Paris	103	1	4
China	Hong Kong*	103	1	0
Singapore	Singapore	102	4	-3
Israel	Tel Aviv	101	5	2
Japan	Osaka	101	5	-4
Switzerland	Geneva	100	7	3
US	New York	100	7	-3
Denmark	Copenhagen	96	9	2
US	Los Angeles	96	9	-1

*Hong Kong Special Administrative Region (SAR) of the People's Republic of China

Source: The Economist Intelligence Unit.

Expatriate Pay – examples

Balance sheet Approach



$$\text{Premium} = 3500 + 32600 + 33600 = 69700$$

		Taxes 56000		Add 33600		
				Tax 56000		
		Housing 67600		Additional 32600		Premiums and incentives 69700
Taxes 22400				Housing 35000		Income taxes
Housing 35000		Goods and Services 9500		3500		Housing
G & S 6000				G&S 60000		Good and Services
Discretionary 10000		Discretionary 10000		Discretionary 10000		Discretionary 10000
Chicago USA	Brussels, Belgium		Host location cost shared EE/Co		Home Country Eqv. Purchasing power	

Additional important IA compensation issues

- Method of payment (currency, split, %....)
- Impact of exchange rate fluctuations
 - Exchange rate fluctuations are inversely related to the differential
- Impact of inflation
 - Inflation is directly related to the differential
- Social security:
 - Totalization agreements (social security tax..)
 - Certificate of coverage (evidence of status)
- Taxes:
 - Dual taxation home and host countries

Alternative tax strategies

- **Laissez faire** – remain Home EE, Overseas package separate agreement, EE – responsible for home/overseas compliance requirement on their own
- **Tax equalization – Hypo – No more and no less**
- Tax protection – **Maxi**
- Ad hoc
- US Taxation Issues
 - US tax to U.S. international assignees (U\$87,600 exempted)
 - Compensation by foreign multinationals in US
 - Compensation and taxation of foreign nationals working in US



Global C & B - Problem of comparability within the organization and across borders

In developed, and emerging markets

- **CB gaps esp. in Executive compensation**

Share – ways

**Discussion – Approaches / actions
to manage/reduce the de-motivational impact of
the CB variation between countries**

Global C & B - Problem of comparability within the organization and across borders

In developed, and emerging markets

- CB gaps esp. in Executive compensation

Not to eliminate or equalize > Focus on
remove de-motivational impact of CB variations between countries

Bonus ties
HQ Share Option

Performance
Partly tie to Regional
Global performance

Std – Global / Local
Industry salary
(Median ? Compa ratio)

% of salary
-Discount to buy
Company share

Global Task
Allowance

Adjust proportion
Salary / Benefits / Bonus

Std – Global Core + Local Benefits
-Medical (family), safety, pension
Insurance, mini. Leave / holiday
Discretion leave, bonus scheme,
Employee right, ethics, discrimination
Child education support, Equity-com

Why Incentive Plans Fail

- Performance pay can't replace good management.
- You get what you pay for.
- “Pay is not a motivator.”
- Rewards punish.
- Rewards break relationships.
- Rewards can have unintended consequences.
- Rewards undermine intrinsic motivation.

Implementing Effective Incentive Plans

- Link the incentive with your strategy.
- Make sure effort and rewards are directly related.
- Make the plan easy for employees to understand.
- Set effective standards.
- Get employees' support for the plan.
- Use good measurement systems.
- Emphasize long-term as well as short-term success.

Discussion - Group Class

(Gen 90/95s - BRIC)

	China	India	Brazil	Russia
Attract (Pick us as 1 st offer)				
Motivate (Will to exceed expectation)				
Retain (Stay longer)				