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Challenges for Global Compensation

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As businesses continue to expand and globalize, all aspects of enterprise have become increasingly complex and challenging in order for organizations to compete in a worldwide market. Human resources and compensation practices, too, are scrambling to keep up with a world in which the use of both expatriate and local-national employees becomes critical for global success. Faced with multiple home and host locations, complex equity situations, and talent management and deployment logistics, HR also has to balance the needs of the global organization for consistency with its local operations' need for autonomy. To provide a better understanding of these issues, a look at the types of projects with which clients are currently approaching ORC for assistance is useful.

Setting the Right Salary for the Right Market

At the most basic level, targeting appropriate compensation levels for local talent across multiple locations is becoming an increasing concern for employers. Pay levels vary across national borders as a result not only of market and industry factors, but also due to traditional practices and values inherent in the concept of salary. (See Chart 1 on page 2, "Compensation Elements Around the World.") Requests for obtaining an appropriate salary level generally arise out of the following common business situations:

- An employee asks for a salary increase.
- The company is struggling to attract and retain talent.



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How can I convince my expatriates how fair their pay package really is?

CHART 1: COMPENSATION ELEMENTS AROUND THE WORLD

Pay Element	India	Mexico	Singapore	United States
Months' salary	Typically 12, but can be up to 13 or 14.5	13-14	13	12
Performance incentives	Common across all employee levels	Common to top and middle management; lower-level employees typically ineligible	Common across all employee levels	Common across all employee levels
Long-term incentives	Stock options mainly granted on seniority basis; may also get allowances for housing, child, leave travel, and conveyance; as well as car program, phone, club membership (senior management), medical reimbursement, and company loan	Occasionally used to recruit; may be provided to top management	Stock options and social/sports club membership at management level; car allowance, and training courses	Employees offered a variety of financial participation plans: profit sharing, savings, stock options/purchase
Required profit-sharing	No	No	No	No
Company car	Majority give company car	Common for top management and for some middle management	Majority provide allowance	Company car or allowance for top management and employees with business need
Vacation	Company practice: 15-30 days	Based on tenure: after first year, 6 days, then +2 days for every year of service up to 4 years, then +2 days every 4th year	Basic: 7-14 days; maximum: 10-30 days; average: 14-21 days	No legal requirement to provide vacation; typical practice is 2 weeks per year, and more granted with tenure
Holidays	3 compulsory; typically 10-16	8 with pay	11	At least 9
Workweek hours	48	Unionized: 48; nonunion: 40	44	40
Transportation allowance	Yes	Uncommon	Yes	Uncommon
Meal vouchers	Common across all employee levels	Common across all employee levels	Common across all employee levels	Uncommon

CHART 2: RESPONDING TO INFLATION IN ARGENTINA

	Inflation (%)	Merit Increase (%) (all staff)*
2007 (projected)	12.7	10.5
2006	12.3	10.0
2005	9.8	8.3
2004	4.5	9.6
2003	13.4	15.2
2002	25.9	8.2
2001	-0.9	3.7
2000	-0.9	3.5

* Merit increase supplements:
 Single-year cost-of-living adjustment
 Single-year base pay supplement
 Pay part of salary in a separate stable currency

- The company wants to attract a “star performer.”
- The position is new, and the organization is unfamiliar with its market value.
- The company is establishing a new office and is unfamiliar with the local market.

In these and other scenarios, a market pricing approach works best. A key step is defining the marketplace and all of the local pay elements that make up an individual’s salary package, including any allowances, fixed bonuses, variable pay, profit sharing, and stock options. By developing a composite of compensation data from a variety of published surveys for similar positions—within the same or similar industries, and at similar revenue levels or organizational type—one arrives at a targeted view of compensation within a given market.

On a more strategic level, beyond developing individual salary levels, an organization that is assessing, adjusting, or establishing its compensation philosophy can also use the market pricing approach to achieve its goals. This approach ensures that the organization’s compensation levels remain at or near the desired market position (many organizations target the 50th percentile of their specific market).

Setting the Right Salary When Data Is Limited

As a result of globalization, many compensation professionals find themselves in need of salary information in market locations or industries where data has traditionally been very difficult to come by, if any actually existed, for example:

- This point is particularly true for nonprofit and missionary organizations, which generally operate in developing and/or remote locations. While research and ingenuity frequently enable organizations to locate appropriate data in many difficult locales, this is not always the case; in many locations, no data exists.
- Salary levels for many highly specialized or technical positions require industry-specific data.
- An organization may need information about how similar organizations respond to certain market conditions in a volatile market—for example, do companies with operations in Argentina address the volatile inflation rates that have plagued the nation by adjusting merit increases to offset inflation or providing a cost-of-living adjustment? (See Chart 2, “Responding to Inflation in Argentina.”) Gathering policy data on these issues allows the organization to make a more informed policy decision benefiting both itself and its local-national employees.

These scenarios frequently necessitate the development of custom surveys to gather compensation and benefits data within a given location and/or industry. Custom surveys usually focus on employees of a specific level in a specific location, although they may also cover a broader employee base across multiple country locations. The use of a third party to conduct these surveys enables a more efficient design, marketing, and analysis of data. Such use, combined with an appropriate survey participant pool (at least five participants) and acceptably timed data (at least 90 days old) also addresses anti-trust concerns and helps ensure the confidentiality and anonymity of participant responses.

Costing Out the Options

While the previous issues relate to compensation concerns within markets in which an organization already operates, potential expansion into a new market raises a host of other concerns. Often, organizations want to explore the total costs associated with operating in a given market well before making a commitment to that location; a cost feasibility study can highlight the challenges in administering compensation.

Such an assessment requires gathering a wide variety of data from a number of sources, including market salary data for positions to be filled by local nationals, tax implications, benefit costs, and the build-up of expatriate compensation for any personnel on a short-term assignment to assist with start-up efforts. Thorough analysis of talent availability and costs associated with operating in a given location proves invaluable for an accurate assessment of the bottom line, thus guiding the organization to make the most appropriate expan-

sions for the successful achievements of corporate goals.

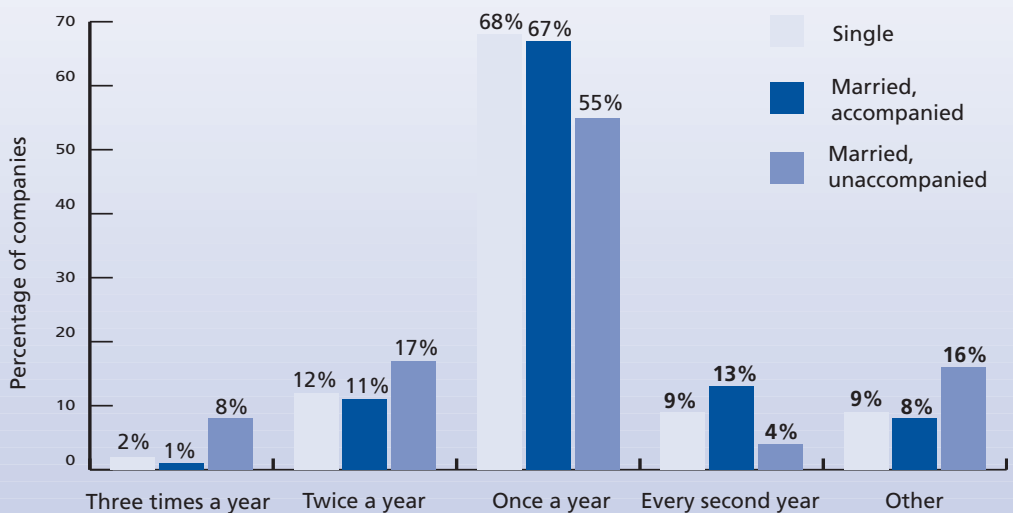
Compensation Outlook: More Challenges on the Horizon

As the HR compensation and administration landscape continues to become more complex, organizations will more and more often find themselves in need of answers that are increasingly difficult to find. Frequently, locating the necessary data will result in opening an entirely new set of questions and issues to be addressed. What begins as a simple local-national salary benchmarking request can rapidly evolve into more significant structural, policy, or practice concerns. To keep up with the rapid movement of our clients as they expand to locations around the globe—and meet the needs of our clients and their unique circumstances—ORC continues to evolve our data and consulting abilities to provide the answers to all of those questions.

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Did You Know... the Latest Trend on Home Leave?

The number of companies requiring the expatriate to spend home leave in the home country has shifted. In 2004, 52% of companies *did not* enforce this policy; in 2006, 52% now *require* the expatriate to take home leave in the home country.



Source: ORC's 2006 Worldwide Survey of International Assignment Policies and Practices