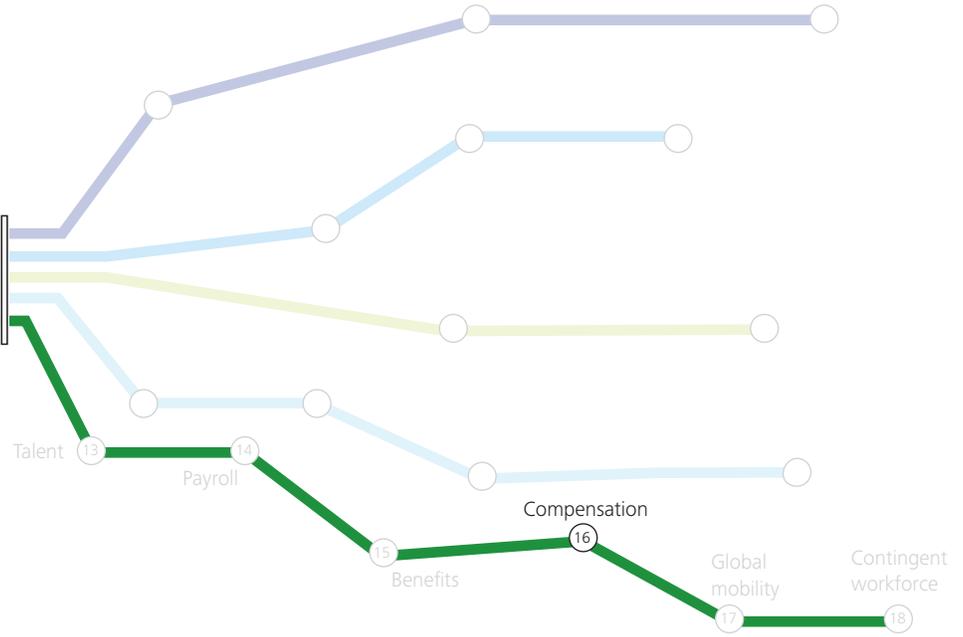


HR functional perspectives



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Consistent where you can be: The future of compensation delivery

Global companies face a myriad of issues revolving around the primary theme of balancing global consistency with local needs. The desired outcome is often a series of compromises that trade country-specific requirements for a degree of standardization that cuts across borders. In the HR arena, one important test of a global mindset is compensation delivery, and it is in this area that a number of large enterprises have not achieved a value-creating level of effectiveness and simplification.

With the past decade's explosion in M&A activity, and many global companies' operations of separate but related businesses, it is common for global organizations to work under a complex, varied set of compensation programs, practices, procedures, and processes. This complexity can lead to a dysfunctional compensation model where time would be better spent on strategic issues like content creation and meaningful customization but is instead spent on operations and administration.

Maintaining a global web of ad hoc compensation systems has several disadvantages. They often lead to higher net labor costs, inhibit HR from performing strategic roles in the business, increase the time required of managers and leaders in the compensation process, and add administrative cost due to duplication and inefficiency. In addition, these varied, complex programs also interfere with creating a truly global organization.

For example, cross-border teams may assemble as peers, but find themselves at different levels of title, pay, and local authority. The search for a qualified collaborator may suffer if a given title means one thing in one country but something different in another. And, as employees move around the globe more frequently, they need to find recognizable and equitable compensation and incentive systems no matter where they work.

As the talent marketplace outgrows local and national boundaries, it becomes more important to replace a patchwork of compensation programs and delivery with a more centralized model. With appropriate governance in place, organizations can achieve standardization without sacrificing the important benefits of local customization. This move toward harmonized compensation stands in parallel with the increasing global alignment of other HR operations and shared services. The next several years should see the process accelerate, especially as technology drives it.

Compensation

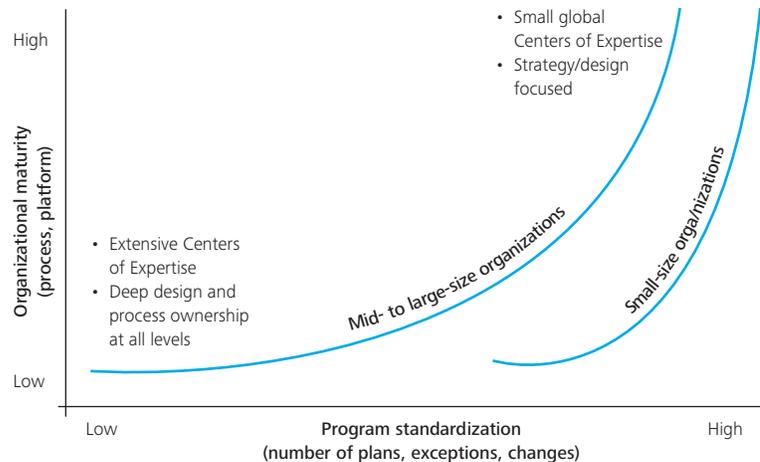
Getting it done: The appropriate decisions at the applicable levels

The early steps toward a globally consistent compensation function may be familiar to veterans of any large-scale transformation: Use analysis and benchmarking to understand the current state, define a target state that meets strategic and operational requirements, and empower an effective team to move the organization from Point A to Point B. In this transformation, a focus on the delivery model is crucial. Establishing the “whats” and “wheres” of delivery helps promote the accountability and integrity of the compensation program. In many cases, establishing a compensation delivery model using a Centers of Expertise approach can be a useful path in moving toward global consistency and standardization.

The initial design of Compensation Centers of Expertise will likely depend on two key factors: Organizational maturity and program complexity. A very mature organization with highly evolved programs, processes, and technology will tend to require a smaller global Center of Expertise focused primarily on strategy and plan design. This is also true where compensation programs are highly standardized and few exceptions are made. On the opposite end of the spectrum, organizations with widely varying plans, lots of exceptions, and less mature processes will likely require an extensive Center of Expertise with deep design, process, and administrative ownership.

Organizations can approach their compensation programs by assessing the goal of each program component. This can lead to the appropriate balance between global and local standards. For example, if the goal of the job structure is to make cross-border moves for employees seamless, global consistency is appropriate and a tightly controlled

Where should work be done?



Source: Deloitte

job architecture may be managed by the global Center of Expertise. On the other hand, if effective recruiting in growth economies is of concern, more flexibility on compensation structure and local control of decisions might be provided. An effective service delivery model can provide defined roles and responsibilities that support organizational strategies.

A typical Center of Expertise structure has multiple layers. At the top, a global Center of Expertise can work with senior leadership to establish strategic priorities. Below that, regional teams that may be part of the Center of Expertises can roll out those priorities in a way that is sensitive to location-based needs. By the time a local office delivers HR services to its employees, or perhaps oversees an employee self-service environment, the global view can be built-in.

Compensation

Sample compensation roles and responsibilities

	Decision-making level	Primary activities
Strategy	Global Center of Expertise	<ul style="list-style-type: none"> • Works with senior leadership to establish strategic priorities and objectives • Establishes vision and frameworks for global programs • Works with regional Center of Expertise to deliver products and services
	Regional Center of Expertise	<ul style="list-style-type: none"> • Receives strategy and objectives from global Center of Expertise • Responsible for service delivery for products and services • Leverages operational resources for tactical delivery
Delivery	Comp Operations	<ul style="list-style-type: none"> • Works with regional Center of Expertise to develop plans for delivery of products and services • Executes plan to deliver products and services • Works with other areas in HR to leverage service delivery • Compensation technology business owners (system design, testing, implementation support, and ongoing maintenance/updates, Tier 2 and Tier 3 support)
	HR Service Center	<ul style="list-style-type: none"> • Provides service delivery on in-scope services • Provides process and standardization improvement for in-scope services • Compensation technology Tier 1 support

Source: Deloitte

A Centers of Expertise structure, such as the one outlined above, provides the appropriate decision rights and controls to improve the integrity of the program. Who has the authority to develop a new pay program? Who can make employee pay recommendations? And, more importantly, where are they approved? The framework may also provide “guidelines” for compensation matters and more formal policies for others depending on the criticality of each element of a compensation strategy.

The need for adjustment to the compensation model may be continual, but when the heavy lifting ends, a global organization can achieve a value-creating level of simplification and standardization under which employees receive appropriate compensation for similar levels of seniority, achievement, and contribution. Titles and roles should be defined in terms that make sense to everyone, and employees should be able to move among locations without feeling disoriented — or worse, disadvantaged.

Compensation

Barriers to balance

Moving to a coordinated global compensation Center of Expertise often requires an organization's compensation team to change processes, systems, and philosophy. That can raise the bar for buy-in and make agreement and implementation a challenge. An organization's maturity level can determine its readiness for change and guide the direction and pace of work. And no matter how welcome the transformation, it still requires a great deal of time and energy.

For local offices or distinct business units, control over compensation is historically a measure of independence. Convincing managers to embrace a new standardized set of programs, practices, procedures, and processes can take compromise. The team in charge of this effort should tune into cultural differences because elements, such as title structures, are easy to upend at the stroke of a pen, but are often very meaningful at the local level. A well-orchestrated communications and change management program is critical to the implementation of the new model.

As important as it is to establish an appropriate compensation model, companies often take on that challenge during a "trigger" event that necessitates the compensation change. Trigger events could be growth past a certain threshold, a merger or acquisition, implementation of a new IT system, or compliance issues that force change across the entire enterprise. Wise organizations take these opportunities to improve the way they do business. They invest the time and resources to develop an effective, well-thought-out approach to delivering compensation programs and services.

Real life, complex experiences

A global information provider found itself top-heavy, with high labor costs and too much of HR leaders' time spent on transactional and administrative tasks. Acquisition had contributed to the imbalance. By working to adopt new tools and implement a more centralized compensation model, the company introduced benchmarking to overcome ad hoc market pricing for talent, and helped different functional teams work more productively together.

A large organization undergoing an abrupt takeover proved how hard it can be to determine the "before" picture in a compensation centralization project. One important data point was the identity of the 200 most highly paid employees — and because the existing system was so decentralized, it took several attempts to come up with that list.

Compensation

Conclusion

By following a detailed design and development process, an organization's compensation programs can be standardized and simplified to an appropriate level that removes noise from the system. But what does an organization get in return for embarking on such a journey?

- Programs and services will better align to the way the organization does business, and reward programs will likely be better positioned to achieve their intended purpose.
- Accountabilities will be assigned, appropriate governance controls should be in place, and labor costs can be appropriately managed.
- Administrative costs will likely be reduced by improving efficiency and reducing duplication of effort.
- Compensation professionals should be able to focus on strategic business issues
- Consistency of decisions and compliance will be improved.

Ultimately, a well-designed compensation service delivery model can help foster an atmosphere in which reward programs provide more value to the organization and to employees.