

Going Global

Managing the Challenges of Global Compensation

What's the best compensation strategy? It depends on whom you ask and what country they call home. An effective, global compensation program needs to be tailored to regions, cultures, currencies and even local laws because, in every language, fair pay might not have the same meaning.

Designing, planning and managing compensation on a global basis can be challenging when companies expand into new markets and attempt to create consistent processes in multiple countries.

When it comes to compensating a globally dispersed workforce, organizations need to manage intricate data-privacy regulations, as well as different cultures, currencies, time zones and languages, while aligning employees across various regions toward common goals.

According to a September 2006 Watson Wyatt Worldwide survey of 275 companies with operations in two or more global regions, more than half plan to take a centralized approach to their global compensation structure. Global organizations that adopt this approach can universally realize the benefits of standardization across their entire operation.

But even with implementing a centralized compensation structure, there are other challenges global organizations need to navigate when crossing continents and countries. Understanding the issues and options for accommodating variations in compensation structures, differences in local data-privacy laws and managing local customs — and even holiday schedules — is necessary to improve an organization's ability to compete in a global world.

BENEFITS OF A CENTRALIZED APPROACH

According to the Watson Wyatt survey, the key drivers for centralization are consistency between rewards and results, and maintaining a consistent position vis-à-vis market and internal equity.

There are two facets of a centralized approach: the creation of a centralized compensation structure that provides consistent guidelines while maintaining flexibility and providing an automated system that helps manage the compensation structure. Having a centralized system also offers greater budgetary control, increased visibility into compensation and performance review

processes, the ability to consistently enforce policy throughout the organization, shorter compensation cycles, reduced IT expenses and audit trails to demonstrate compliance.

One immediate benefit of a consistent, centralized global system is shorter compensation cycles. This allows companies to automate workflow, and it enables managers to see who has taken action, as well as quickly identify process bottlenecks. The planning process is inherently more efficient when managers have access to online guidelines and decision-support tools such as automatic calculations.

Another benefit of a centralized approach is the ability to lower IT costs by streamlining systems. Companies that maintain separate systems require distinct yet sometimes duplicate skills and schedules to support islands of technology that perform similar tasks and functions.

As a result, they incur increased costs, whether they support these systems using internal IT resources or external vendors. In addition, they also have to manage multiple service-level agreements and pay for separate hardware, operating systems and databases.

Even with a centralized system, challenges still arise from global competition. For example, maintaining equity globally while accommodating market-specific practices such as allowances (whether to meet government regulations or local-market expectations) can be an obstacle.

Although increased visibility through a centralized system provides insight into corporate policy adherence, there are global variations in terms of allowances that need to be accommodated. Another challenge is accounting for differences in local data-privacy laws and options for managing the compliant sharing of information.

BEYOND COMPENSATION: NAVIGATING DATA PRIVACY AROUND THE GLOBE

One key issue that organizations wrestle with is how data-sharing and privacy regulations vary from country to country. U.S. businesses tend to focus on domestic or industry-specific data and reporting requirements such as Sarbanes-Oxley and HIPAA. A shift in processes and thinking is required in other

countries that embrace different sets of standards.

Organizations that do business in Europe need to meet requirements set forth by the European Union (EU). The EU Data Protection Directive sets restrictions on how elements of personal information can be collected, stored and shared. The variations in stipulations between European and U.S. data-privacy requirements are one reason why managing data privacy is so cumbersome for organizations.

Under the EU directive, the focus is protecting individuals and their personally identifying information such as race, political affiliation, sex, name or even seemingly standard business information such as office phone number extension. These types of data are restricted from being shared unless explicit employee permission is given or procedures are put in place to properly protect this information. Organizations must be aware that personal data protected under EU privacy directives could be the same information that could be requested under U.S. laws such as the USA Patriot Act.

The EU restricts the transfer of data to those countries that it deems do not have rigorous data-privacy regulations, including the United States. There are a few countries within which companies are free to share information under the EU requirements, including Argentina, Canada and Switzerland. To manage the transfer of data to other countries, multinational employers need to adopt compliance strategies for data.

One option (albeit very limiting) is local processing. This local storage format and processing of data needs to happen within the country of origin, and it restricts the movement of data.

Organizations that embrace this strategy might want to partner with a vendor that has local hosting facilities that will keep data within EU boundaries for services such as payroll. This option would have to include controls on who accesses data, as all accessing personnel would have to be considered "local" to that country.

Under this option, managers in countries outside the approved set would not have access to compensation data for employees in those countries. Arrangements can be made to have a local manager act as proxy in compensation decisions.

Derogations are another compliance option for organizations managing information globally. Derogations make specific provisions or exemptions for data sharing, and they require individual consent. For derogations to be valid, however, a company cannot require employees to give individual consent, and they must allow individual employees to opt out at any time. As a result, companies need to be prepared to block individual compensation data from being viewed when permission has not been given or is withdrawn.

Safe harbor guidelines are another strategy for organizations to meet privacy standards. Safe harbor standards were agreed on by the EU and United States, and they ensure protection of personal data consistent with EU policy specifications.

The safe harbor framework offers a clear set of steps to

comply with the EU Data Protection Directive. Organizations that participate in safe harbor are required to obtain certification and adhere to its principles. By adopting safe harbor practices in each country in which employee data is accessible, organizations will be deemed compliant and able to share data and conduct business without interruption.

Model contracts are another strategy for data-sharing compliance. These contracts contain standard clauses that are accepted throughout the EU, and they require organizations to adhere to established terms before data can be shared, even in the case of corporate subsidiaries.

Large organizations might want to consider binding corporate rules to manage the cross-border use of their data. Binding corporate rules are multinational data-protection standards that a corporate group adopts. In 2005, General Electric was the first organization to be granted permission in the United Kingdom for its binding corporate rules to export data.

A benefit to binding corporate rules is the ability to negotiate content, reporting and compliance mechanisms with the data-privacy regulators in each country. Many, such as Germany, require local works councils to approve data-privacy regulations, which can extend the time it takes to become compliant.

Although there are challenges with managing data-privacy regulations from country to country, heightened awareness of the various options will enable effective compliance and adherence to varying data-protection requirements.

VARIATIONS IN COMPENSATION STRUCTURES AND LEVELS

In addition to navigating various data-privacy regulations, maintaining equity globally is another challenge for organizations that operate in multiple countries. Performance-driven compensation already is changing the way organizations align individual, group and company goals to determine business outcomes. By implementing a consistent global HR strategy, organizations can more effectively reward their employees to reach their goals.

Although a centralized compensation system might help enforce global consistency, it must be able to accommodate salary variations from market to market — the definition of base salary varies across regions. For example, in Australia, base salary is the guaranteed rate paid to every employee, regardless of performance. Commissions, incentives, car allowances and other bonuses are not included as part of an employee's base pay. In Taiwan, base salary is inclusive of bonus or other contractual payments. In France, base pay also can encompass vacation pay and overtime payments. These regional differences need to be built into the compensation rules.

One of the issues for global organizations is having a strategy for managing the differences in salary and bonus ratios. Although the EU is moving to be more like the United States, heavily emphasizing bonus and incentives, areas such as Asia put more weight on "salary versus bonus."



FOUR BEST-PRACTICES APPROACHES TO GLOBAL COMPENSATION CHALLENGES

Have a centralized system for compensation management. A centralized system reduces IT expenses, and it provides more stringent budgetary control and the data visibility necessary to make informed decisions.

Find a data-privacy strategy that best meets your organizational needs. One size does not fit all. With multiple options for managing data storage and sharing, choose one that delivers the flexibility you need and enables you to remain compliant in the areas in which you operate.

Target your focus for market data to meet specific needs. Salary surveys might not be available for new or emerging markets. In areas such as

Brazil, China and Russia that have a shorter history of U.S. companies' presence, be prepared to go out and do individual surveys. To determine the cost of talent, do not price 150 jobs (as you can in more-developed markets). Rather, focus on the top 20 jobs you will operate in this emerging area.

Accommodate local cultures.

If you're trying to determine when to schedule your planning cycles, take local customs into consideration. In Israel, employees might take extended time off during the Jewish high holidays. During the European summers, many organizations close down for seasonal vacations. When operating globally, scheduling a common focal planning period becomes much more challenging.

Managing environmental pay issues is another area for concern for organizations that operate globally. In some emerging markets, there simply isn't enough adequate market information available for organizations to have the intelligence to make competitive compensation decisions. In Russia, for example, compensation experts advise companies to privately fund studies for a small sample of key jobs.

As employees become aware of regional differences in compensation structures, some will campaign for similar rewards. For example, if an organization generally supplies car allowances to employees in Australia, that same benefit does not have to be offered to employees who have the same position in the United States.

Companies that give in to employee pressure for homogeneity might end up with a very expensive plan. First and foremost, you need to establish appropriate bonus levels that are competitive with the market. For example, bonuses for engineers in Silicon Valley might be higher than other areas of the world to help companies operating there improve their competitive advantages through employee retention. In India, the bonus percentage for an engineer might be less, requiring organizations to support that difference in structure.

Although the measurement for a top-level bonus might be the same, the bonus percentage will differ because of the price of talent in that particular area.

ACCOMMODATING LANGUAGE, CULTURE AND CURRENCY

Cross-cultural communications are much more effective when received in the local language. How organizations handle multilingualism can make a difference in employee morale, as well as the ability to effectively deliver content to their workforce. For a country in which English is not the official language, organizations need compensation systems that enable managers to access the same centralized systems simultaneously but in their own local languages.

Managing cultural differences is another issue for global organizations. For example, unlike the United States, many other cultures put greater emphasis on titles and surnames — in many cultures, honorifics indicate either social status or noteworthy achievements.

In Japan, the "san" suffix is a sign of respect bestowed on someone with higher social standing, such as the boss. In China, employees expect their total reward statements to address them appropriately — no matter

whether they are earned, ignoring someone's honorific can be insulting.

Also, some titles are not gender-neutral and can lead organizations to a communication faux pas. A proper understanding and use of sociocultural titles can play an important role in communicating with a global workforce and boosting morale.

Setting and paying compensation in local currencies is another element global organizations need to manage. Although an engineer working in the United States might command an \$80,000 salary, that same position in India might warrant only the equivalent of \$11,000.

Managers planning salary and rewards need to be able to toggle the view between compensation in the employees' currency (even when members of the manager's team reside in different countries), as well as in the manager's currency to the headquarters' currency. Regardless of the currency displayed on the screen, all the roll-ups should be handled in the headquarters' currency.

PLAN AHEAD AND BE PREPARED

Organizations in the new global economy need to prepare for these additional levels of complexity when running their business. To succeed, multiple divisions must effectively manage processes that span different operating units or global regions and address multiple local demographic challenges.

When it comes to global compensation systems, be sure to not only look for one that can handle the volume of users you have, but also accommodate the requirements for multiple languages, currencies and local cultures. And even after making this wise investment, be prepared to proactively manage the ever-changing ancillary issues surrounding data privacy and other geographical nuances by having strategies in place to position your organization for success anywhere in the world. **TM**

Robert Mattson is the senior manager of product marketing for Workscape Inc. We can be reached at robert.mattson@workscape.com

(#14930) Reprinted with permission from the August 2007 issue of Talent Management. © 2007 MediaTec Publishing, Inc. For more information about reprints from Talent Management, contact PARS International Corp. at 212-221-9595.



www.workscape.com
877-975-7227