



Balancing act: Providing benefits globally*

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Successfully addressing issues of pay and perquisites for a global workforce requires a blending of a structured overall framework with local flexibility.

Rapid turnover saps productivity and drives up training costs for a customer service center in India. While the home office in Houston holds up paperwork, an important sales position goes unfilled in Great Britain. Human resources (HR) officials set an unintended and costly precedent when they raise a handful of employees' salaries in Brazil.

These examples are hypothetical, but the challenges they represent are real.

For private US companies that employ a global workforce, poorly managed areas such as pay and perquisites create obstacles to productivity, revenue growth, cost savings, and new business opportunities. Some companies are encumbered by monolithic HR bureaucracies, overly reliant on paperwork and protocols set by the company's headquarters. Other companies may be unable to corral their international efforts because they lack centralized controls and communications; operations in each country or region run nearly autonomously.

For companies caught between the extremes of centralized and decentralized HR approaches, the solution lies in finding a blended, balanced strategy that employs a global compensation framework—a philosophy that sets parameters for their HR operations around the world yet provides flexibility so that practitioners can draw upon their talent, expertise, and knowledge of local customs.

“Companies need to find the middle of the spectrum,” said Scott Olsen, a principal at PricewaterhouseCoopers' Global Human Resources Services group. “When we talk about flexibility, we want it to be within a framework.”

This framework allows organizations to:

- Respond strategically to internal and external challenges and opportunities
- Improve efficiencies while employing the full potential of local resources

- Control costs and improve savings
- Provide responsiveness in hiring and retention

The case for a framework-based global compensation strategy

A framework-based global compensation strategy does not just represent the most favorable, most effective balance between

the centralized and decentralized HR approaches. It also represents a cost savings to companies, according to Olsen. The savings can come in many forms: greater revenue, enhanced performance, fewer overpaid employees, and lower training and development costs.

Olsen also explained that framework-based global compensation strategies are cost-effective

because they provide a balance between global consistency and local customization. For example, without a common framework to guide their decision making, HR departments around the world could make arbitrary decisions about raises, salaries, or perquisites. These precedents may be difficult to undo.

Companies may create recruiting and retention problems by

The following chart shows how the blended, framework-based global compensation strategy compares with centralized and decentralized approaches.

	Centralized	Decentralized	Blended: The framework approach
Description	Imposes the home country's systems and processes on overseas operations. Salary structure and compensation plans (e.g., incentive plans) are managed the same way across all locations and business units regardless of differences in local environments.	A true multinational approach, with separate, local managements for each country or region. Salary structure and compensation plans are managed at each local level.	A common framework, instead of a one-size-fits-all plan, which supports the organization's mission. The framework is flexible and broad enough and can be customized to respond to local needs. Guidelines for salary structure, job titles, and compensation/perquisite plans are set by headquarters and tailored for each local market.
Advantages	Provides global consistency in HR management. Centralization lessens administrative challenges.	Allows many locations to act autonomously and respond quickly to market labor conditions.	Fosters a consistent worldwide corporate culture while balancing global standards and local needs. Costs are allocated efficiently across offices.
Disadvantages	Not a true multinational strategy. May miss opportunities for cost savings, attraction, and retention at the local level.	Doesn't allow organizations to have shared global objectives or cultures. Presents reporting, compliance, and communication challenges.	Requires high levels of communication between headquarters and local and regional teams. Also requires streamlined systems and processes plus training on change policies and procedures.

systematically underpaying workers, which increases turnover and raises training and development costs. Companies may also exacerbate budgeting and inequity problems by overpaying workers. Both issues highlight a lack of understanding of local labor markets.

For employees, frameworks mean fairness and transparency. They can also lead to a more flexible and mobile workforce, as workers may be more amenable to moving to a different country if they know they will be compensated appropriately. A framework also “avoids situations where two people who work next to each other are treated differently,” Olsen said. Improved transparency and workforce mobility “are two tangible benefits” for companies and are easily communicated to employees.

Olsen described a US-based software company that recently developed a framework-based global compensation strategy. The company had grown aggressively through acquisitions and as a result, had a lot of HR departments in different countries that functioned somewhat independently from headquarters. Because of this, the global workforce was not integrated, and the company was not able to move workers around the world as much as it had hoped. Titles, job descriptions, and skill ratings did not correlate across borders.

Olsen said that after implementation of a framework-based global compensation strategy, “what they came out with was a much more equitable way to review their workforce—a much more objective way to make sure they were promoting the right people. It made

their business work better and also helped their recruiting.”

How to develop a framework

A properly developed framework provides a set of consistent values, strategic goals, and operating practices for HR operations to use around the globe. Anne Goodyear, director of PricewaterhouseCoopers’ Human Resources Services, said a company should start developing its frameworks by studying its existing HR approaches and researching how compensation and perquisites are handled in each operating country and region. It is critical to look at the HR challenges that the company currently faces, such as retention or recruiting problems.

Goodyear said stakeholders from operations and finance departments need to be involved in these discussions, because they play roles in crafting and implementing compensation strategy. Only after the company completes its due diligence can it understand the breadth and depth of the challenges at hand and the issues that need to be addressed in each region. At that point, leaders must begin to consider a broad compensation strategy—the framework—that will set the philosophical direction for the company and set HR parameters.

Sometimes, Goodyear said, companies are tempted to apply local fixes to what are often symptoms of global compensation problems. She advised against these kinds of temporary solutions. “You’re pushing off issues that will simply resurface,” she said. Also, handling these challenges on a one-by-one basis could create inequity issues for employees.

The strategy framework should always be seen as a set of guidelines. Olsen called it the “common lens” for a company.

On the whole, it is important that companies not correct an overly centralized approach to HR by adopting an overly decentralized strategy or vice versa. “Stay focused on the issue that you’re trying to solve, and make sure your solution doesn’t create a bigger problem,” he said. “You really must understand where you want to land on this continuum between consistency and flexibility. Companies often go too far in the other direction in terms of applying a fix, and they end up on a seesaw.”

The flexibility to tackle new challenges

A framework-based global compensation strategy allows a company the flexibility, guidance, and local expertise it needs to handle some of today’s biggest global HR challenges:

Obtaining adequate data in developing markets

When expanding outside North America and Western Europe, companies discover that labor market information used to set salaries is difficult to access and often unreliable. In some markets, there may be gaps in geographic and historical data. In addition, some countries have experienced recent volatile activity in their labor markets, which makes it even harder to calculate compensation figures. Companies should rely on multiple data sources and triangulate to find salary, compensation, and perquisite information, Olsen said. “This can be difficult. We can’t rely on the same

data sources and testing that we rely on in our home market.”

Some countries and regions may have an additional consideration. There could be two distinct workforces: a native population and a separate, expatriate labor force that receives an entirely different level of compensation.

Private companies may face another level of difficulty in obtaining certain salary and compensation information, especially if competitors are also private companies and do not report information to shareholders and regulatory agencies.

“These are some of greatest challenges that a US-based company that’s becoming more global must face,” Olsen said. “It’s more difficult, and you must be more creative to identify solutions.”

Competing for labor overseas

Goodyear says the talent pool in many foreign markets is “much more blended” than it is in the United States, and private companies must compete more aggressively abroad against larger publicly traded companies and the public sector for skilled workers.

In these circumstances, a private company that has a framework-based global compensation strategy may have an easier time showing prospective candidates that issues of compensation and perquisites are handled fairly and transparently. Private companies usually cannot offer the same kind

of equity deals to new employees as can public companies but may be able to structure other compensation and perquisite programs to offset this issue.

Cutting costs in the long run

Embracing a framework-based global compensation strategy takes time, effort, and energy—not an easy sell in a challenging economic climate.

“This is not exactly what you’d call a low-hanging fruit,” Olsen said. Companies may want to make an immediate impact on the budget by freezing salaries and cutting travel expenses. However, “eventually you run out of those things.”

Face today’s challenges

National economies grow at different rates, making it difficult for companies to account for, forecast, and budget compensation. While a company’s financial results may be down in many markets, employees in emerging markets might be eligible for merit increases.

“If you forecast all your merit increases around the globe based on what’s happening in the US, you might not be compensating everyone appropriately,” Goodyear said. “There is no one-size-fits-all answer.”

A framework-based global compensation strategy creates a structure for addressing problems while providing flexibility for markets experiencing greater-than-average growth.

Want to know more about global benefits? Please contact:

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