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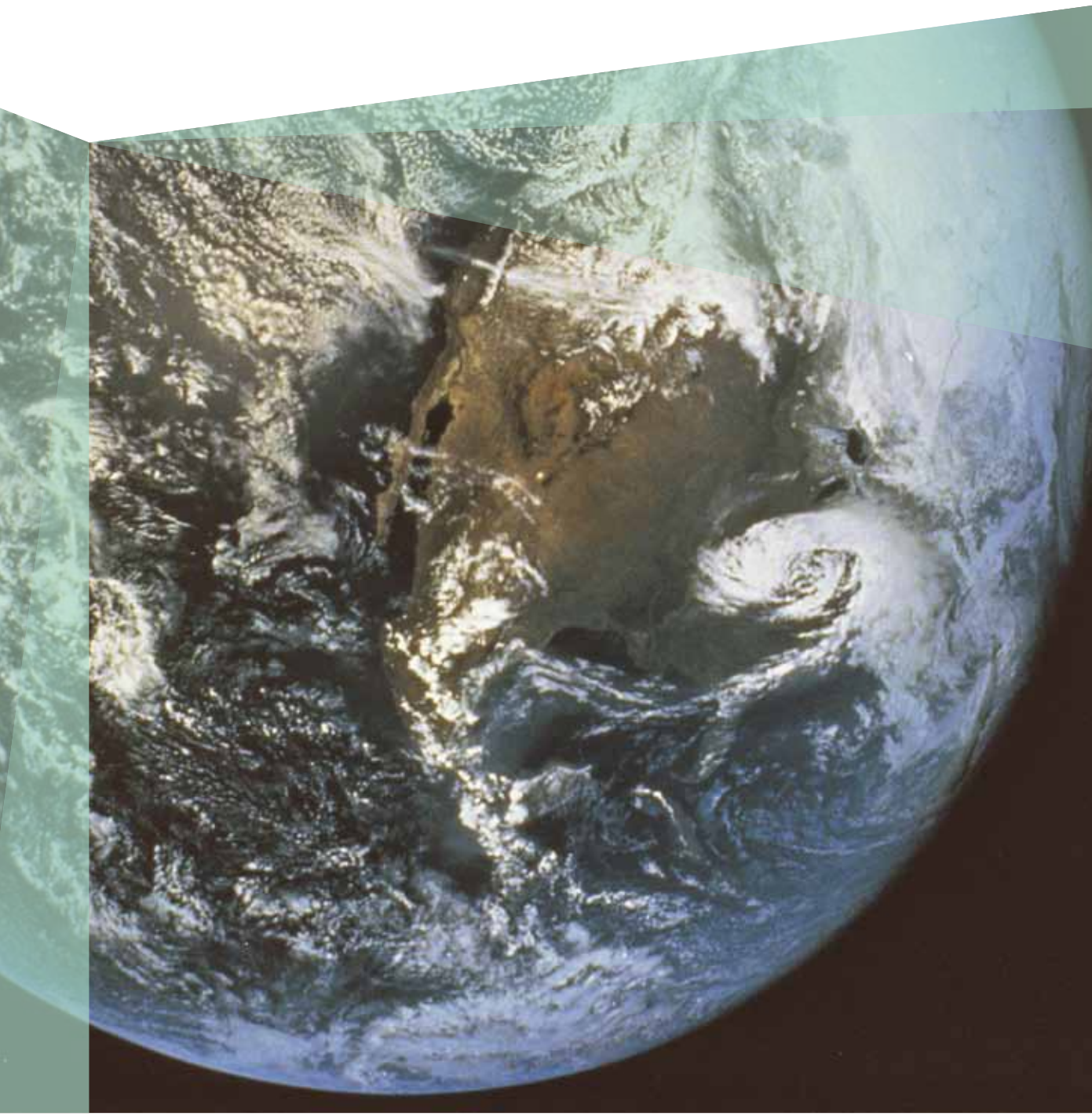
INTERNATIONALISATION
HOME VERSUS HOST COMPENSATION APPROACH AT RECKITT BENCKISER



MARSH & McLENNAN COMPANIES

HOME VERSUS HOST COMPENSATION APPROACH AT RECKITT BENCKISER

With the economic downturn continuing worldwide, in Mercer's latest 2012 Worldwide Survey of International Assignment Policies and Practices[1] we expected to find companies moving towards more diverse compensation practices, such as local plus, localisation and host compensation. In actuality, we have continued to see an overall increase of both short- and long-term international assignments and other types of moves for European and global multinationals.

We have also observed a growing segmentation of the types and purposes of assignments, including short-term, project-based assignments requiring specialised technical skills as well as developmental assignments and local international hires. Although assignments for developmental purposes rather than for setting up operations or for transferring corporate culture are not that new, they have recently become critical components of an individual's career plan.

We are also seeing a shift to a global talent pool, with talent being sourced worldwide rather than just at corporate headquarters.

Along with all these trends, there have been some signs of changes in remuneration policies as cost containment becomes more of an issue. Although remuneration still depends largely on the length of the assignment, we have seen employers adopting less of the traditionally used "one package fits all" mandate. Instead, we are finding more adaptation of compensation to the purpose of the assignment and a more systematic measurement of effectiveness and organisational return on investment. However, our survey shows that 70% of companies still use the balance-sheet approach to manage long-term assignments, albeit in a more equalised fashion, sharing some of the costs with the employees.

This approach is notoriously complex to manage, involving annual recalculations of cost-of-living variables, cross-charging, hypothetical

[1] For more information about Mercer's survey, please visit www.imercer.com/wiapp.

tax, fluctuating exchange rates, host country tax compliance, definition of home country, localisation or repatriation decisions, and more.

One company that has successfully built a mobility model that defies the conventional wisdom of the "home host approach" is Reckitt Benckiser (RB), a multinational health, hygiene and home products company. Over the past year, Bola Ogun, Compensation & Benefits Director at RB, has led the refreshment and further development of this simple and unconventional model.

A TRULY GLOBAL OPERATION

RB has extensive experience with global mobility. The FSTE 50 listed business was formed in 1999 out of the combination of a Dutch company, Benckiser (founded in 1823), and a British company, Reckitt & Colman (founded in 1840). Nearly 200 years and several mergers later, the company is neither Dutch nor British, but international.

Most leading multinationals say they are global, meaning they have operations around the world, they work across all time zones and their critical talents are developed through assignment in other countries. RB's version is more complete. For most of its top managers, their past two or three roles have seen them live and work in countries other than their original home country. These individuals view themselves as global citizens rather than as citizens of any given country – so much so that RB doesn't even use the terms "expatriate", "assignment" or "home country". This is striking given that more than 49 nationalities are represented within the top 400 executive team, and 65% of these executives are not currently residents in their original home country. Furthermore, 1,000 of the company's 38,000 employees are abroad at any given moment, and more than 300 of them move to a different country each year.

The company has a clear strategy in terms of ensuring that its brands are the top one or two of their kind in each market segment, and 70% of the organisation's net revenue comes from "powerbrands" such as Nurofen, Finish, Gaviscon, Dettol, Strepsils and Air Wick. RB divides the world into three major consumer clusters, based on similar market dynamics and consumer expectations: Europe and North America; Latin America and Asia Pacific; and Russia, CIS, Africa and the Middle East. Yet these large clusters belie the company's focus on putting marketers on the ground in key countries within the regions – what RB calls its 16 Power Market.

Clearly, a sharply focused mobility policy is essential, and RB prides itself on having a simple, six-page-long mobility policy that applies to everyone in the organisation. It enables the rapid international transfer of employees both faster than in the traditional assignment model and at half the cost. It is also light in terms of administration and very simple to communicate and understand.

A DIFFERENT APPROACH TO GLOBAL MOBILITY

RB calls its approach "International Transfers". Although similar in design to the Host Plus or Hybrid model of assignments, RB's approach incorporates some unique features along with the more traditional ones. For instance, conventional wisdom says you maintain the home-country employment contract; RB does not. RB draws up a new employment contract for each new move, with only the length of employment carried forward from the previous contract. This approach enables the most unconventional and potentially controversial aspect of the model: an international move can lead to a reduction in gross salary. RB adjusts the base up or down to what is globally competitive, taking local taxes and the cost of living into account.

Consider, for example, the case of a manager being transferred from Manchester in the UK to a similar-level role working in Singapore. If you compare both the current UK salary and the future salary in Singapore, you will notice a reduction of gross base salary by 24% in Singapore. Why would an employee accept an offer that involves a significant reduction in his or her gross salary? RB encourages employees to look at the package on a net basis. If you take into account the tax assumptions in Singapore versus the UK, there is actually a 15% uplift in net compensation. RB transferees realise that they spend only that element of pay that is transferred to their bank account at the end of the month – that is, after the deduction of income tax and social charges are levied.

In short, the model isn't constrained by current base salary and trying to "build up" from it. This allows for significant increases in gross pay in situations where an individual is moving from a low-income, low-tax environment to a high-income, high-tax environment, and vice versa. RB also gives careful consideration to what constitutes appropriate compensation for the role, based on market data, peer comparison and also how it links to business strategy. How does that new location rank in the RB world? Is it a strategic market? Is it critical for business growth?

RB also takes into account cost-of-living differentials. For example, knowing Singapore is a costly location in which to reside, the company (like many others) takes this factor into consideration when determining compensation. However, the difference at RB is that the organisation analyses and takes it into account only once – on the way in to the location. There are no new annual build-ups. In some locations, housing will be paid for a limited period – for instance, in places where there is a high security risk or a severe housing shortage, leading to inflated costs. Where the package comparison (including cost-of-living analysis) shows that the employee will be worse off generally, RB provides the employee a single one-off payment, equal to two years' worth of the difference,

that is paid upfront. There is no ongoing maintenance of assignment pay and there are no discussions about the annual update. This encourages the transferee to quickly adjust to life and work in the new location.

Classic benefits, such as an international pension scheme and international health plans, are provided. However, instead of expense reimbursement for each small item pertaining to the relocation, RB offers the employee a lump sum (roughly equivalent to a month's salary) to be used in any way the family wants. This sum is available to the employee only once the whole family has arrived in the new location.

THE BENEFIT OF THIS MOBILITY APPROACH

Why does this simple model work? There are two types of expats: "mercenaries" who will go almost anywhere if the price is right and others who want to grow their careers on a world stage and will move because it is right for their global career. Most people in RB fall into the second category, because the company has such a clear focus on attracting and developing a global talent pool of internationally mobile, agile commercial and technical leaders to deliver world-class performance. This culture of mobility supports the company's "go to market" strategy, and the link between global mobility and talent management is visible to anyone working in the organisation.

The rapid pace of globalisation has meant that expansion into new markets has become a top business priority, and companies have to become more ingenious and strategic about placing the right people in the right place at the right time and at the right costs.

ABOUT THE AUTHORS

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