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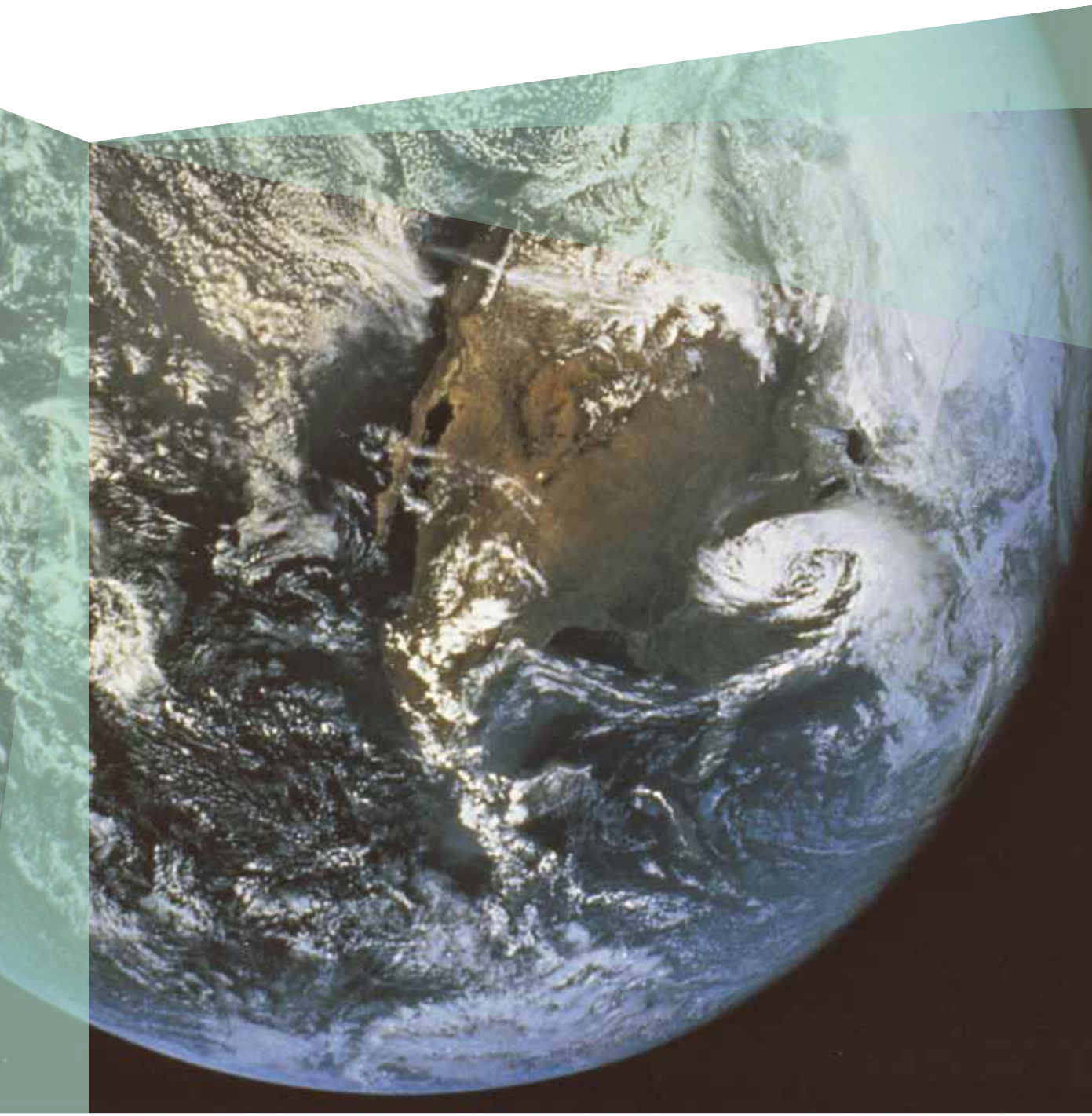
THE HUMAN CAPITAL AGENDA IN EMEA
COMPETING FOR SUCCESS IN A GLOBALISED WORLD



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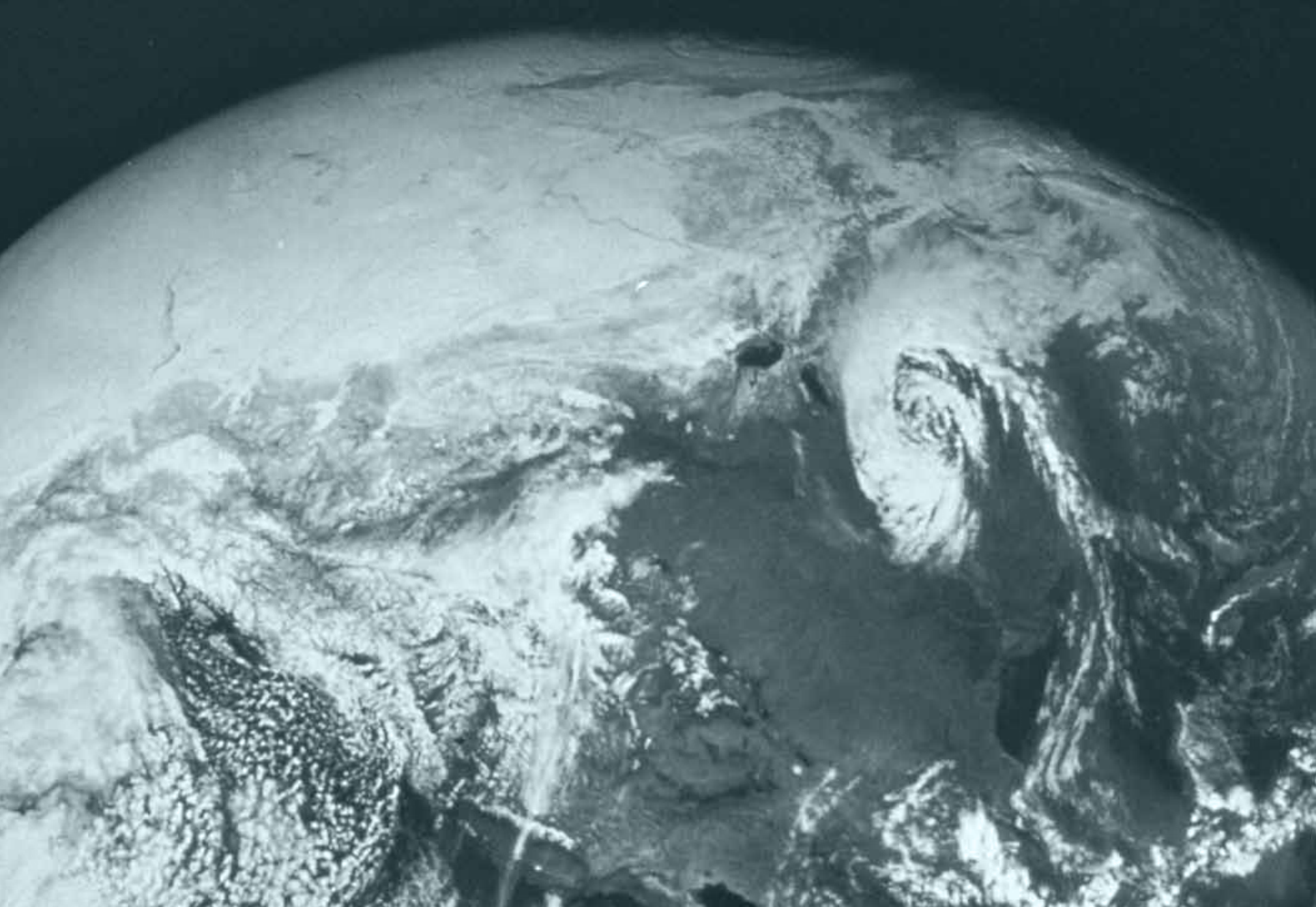
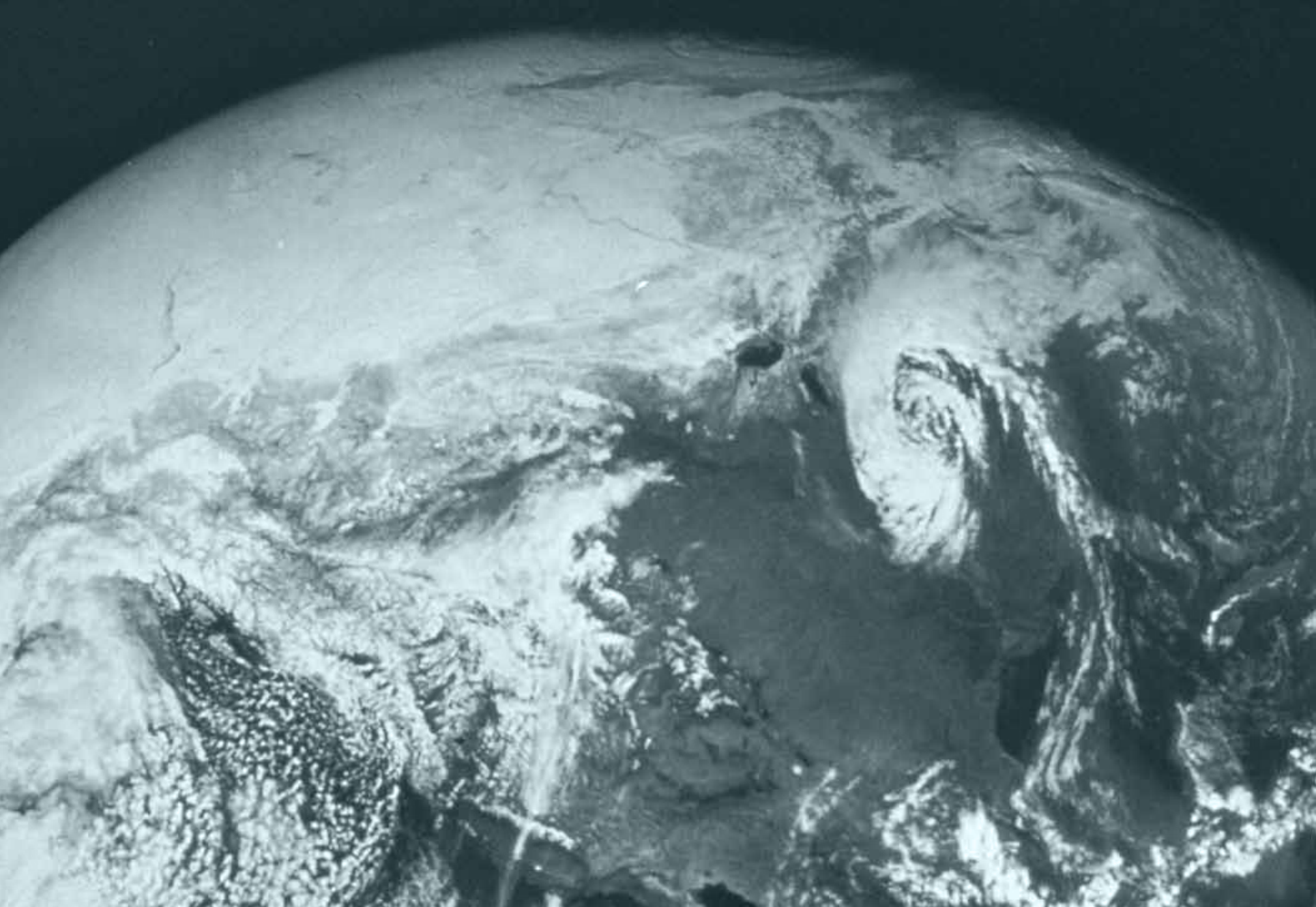


TABLE OF CONTENTS



INTRODUCTION

Welcome to our 2012 human capital anthology: *The Human Capital Agenda in EMEA – Competing for Success in a Globalised World*. The anthology assembles a selection of 15 articles covering a multitude of talent-related topics that should be of particular interest to organisations with headquarters or operations in the Europe, Middle East and Africa (EMEA) region.

Mirroring the unprecedented levels of complexity that global and multinational organisations have to deal with in today's global economy, the overarching theme for the fifth edition of this annual publication is staying ahead of the competition in a two-speed globalised world.

Multinational employers have to calibrate their business and people strategies in real time to find simultaneous responses to the crisis in Europe, the slow growth in mature economies and the faster pace of growth in the developing markets in Asia, Latin America, the Middle East and Africa. To improve agility and transparency, many companies have been designing and implementing new job-levelling and grading structures, along with reviewing and aligning pay structures, with several of them also looking at incentives to push the performance culture and to become a more efficient and effective organisation. Facilitating talent movement across functions and geographies is an important goal for more and more global organisations.

In assembling this collection of articles, our intention is to bring to your consideration the most critical issues organisations in EMEA are unearthing today across the human capital continuum – from leadership and organisation performance to executive and workforce rewards and talent mobility in the broader sense of the word. The publication combines Mercer's intellectual capital and points of view with case studies shared by leading client organisations from various industry sectors, with the aim of providing you research-based insights into market trends and practical examples of solutions that may be beneficial to your own organisation.

We trust that you will find this publication thought-provoking and inspiring. As always, Mercer will be delighted to offer additional insights and to work with you in any areas of concern you may have in the immediate or longer-term future.

With my sincerest wishes for a successful 2013,

Ilya Bonic
Europe Talent Business Leader

TALENTISM – THE NEW CAPITALISM?

In his opening address at this year's World Economic Forum in Davos, Klaus Schwab, Founder and Executive Chairman, stated that capital is losing its status as the most important factor of production in our economic system. While reports of the imminent demise of capitalism are exaggerated, there is growing evidence that we may be entering a new era: the "age of talentism". Rule of capital will be replaced by creativity and the ability to innovate – in other words, human talent is becoming the decisive competitive factor. What impact is this going to have on how businesses are run?

Two fundamental questions arise in the world of talentism:

- Do we have the right pool of talent – and how and where can we find the right people?
- Do we have the right talent pipeline – and can we transform and move talent to ensure that we have the right people in the right place at the right time and at the right cost?

This article addresses the second question.

Any meaningful discussion of talent pipelines needs to start with a clear understanding of the possible blockage that may occur within the pipeline. Companies worldwide are reporting the following problems in managing their pipelines:

- Lack of measurability: How can we determine whether our efforts are efficient and worth the investment?
- Lack of focus: A one-size-fits-all approach to talent management may lead to a significant waste of resources.
- Lack of clear passageway: The pipeline is beset with choke points and blockers – for example, an ageing workforce, flatter organisations and insufficient movement.
- Lack of velocity: Finding both the optimal speed of transformation and the correct balance of talent remains a significant challenge.

The solution is to follow a systematic approach to create the right pipeline velocity. The following five steps are key:

Identifying Talent/Segmentation

Identify and define the most critical capabilities of the organisation. Not all of the capabilities that are currently supporting business goals are truly critical, either now or in the future.

Mapping Critical Roles

Identify the roles most likely to help develop each capability and map them from a dynamic perspective, according to the future needs of the organisation.

Quantifying Progress

Determine what is currently happening within the talent pipeline, what needs to happen and at what speed.

Connecting to External Markets

Be aware of changes in the external talent pools and keep talent close to enable rapid access to them.

Managing Optimal Velocity

Do not make this a one-off intervention, but instead a constant proactive process, enabling the organisation's strategic objectives in a rapidly changing environment.

The velocity of the talent pipeline may be described through the following equation:

$$\text{Velocity} = G + T + MI$$

Pipeline velocity is the sum of three drivers: Growth, Turnover and Managed Interventions. In mature Western economies, growth has been very low in recent years, as has staff turnover. Therefore, in this context, coherent and deliberate managed interventions of the talent pipeline become the most critical factors, and the only ones over which organisations have some control.

The traditional definition of talent management looks at all the processes inherent in the talent lifecycle: hiring, onboarding, development, performance, rewards and succession. At the core of it all are the key competencies, which will be unique for each organisation.

In the new world of talentism, however, a more dynamic understanding of core capabilities is required, to ensure that these are being recognised and utilised at any moment throughout the company.

This starts with broader understanding of key talent, beyond the top leadership layer, to include middle to upper layers and operational roles. A focus on segmentation of the talent population is essential, as is a mind shift from emphasis on key people to focus on key roles.

A segmentation of roles is useful at this stage. Some may be career destinations, while others contain firm-specific knowledge that may confer competitive advantage. Some roles are very intense from the development point of view but require people to be ready for them. Any development is likely to be more of the "on the job" variety, rather than classroom based. Other roles may not be at all suitable as pass-through roles; very technical or specialised roles need to be covered by proficient, seasoned employees.

Once these roles have been identified, the focus then moves to finding the right people to fulfil those roles and building them up through active career management. It may be useful in this context to think of the talent mix of an organisation as an investment portfolio – some of the assets need to be actively managed, while others can be managed more passively.

Active pipeline management goes beyond the traditional idea of career paths – the new concept is career experiences. In order to prepare an employee, each company will identify a menu of essential experiences. This menu will vary from company to company, and may include things such as multi-country experience, profit-and-loss experience, people-management responsibilities and so on. The crucial step is finding the roles that will provide the talent with these experiences – moving from role to role provides the pathway for talent building.

However, not all of these pathways are equal. Some may be longer than others or less efficient. And this is where active management comes into play – ensuring a high yield rate of the pipeline, offsetting previous passive management, reducing time to proficiency in any given role, and bringing in talent earlier or later in the process. In the current economic climate, there is little room for failure. With little money or time to invest in talent, the emphasis will be more on assessing potential and then providing just the right amount of development.

THE ROLE OF HR IN TALENT MANAGEMENT

HR has an important role in strategic talent management at the planning, design and modelling stages. However, decisions about people are ultimately made by line managers. How can HR support them so that they are confident they are making the right decisions about the right talent segment? Below are three prerequisites for enabling meaningful manager-led talent interventions.

Prerequisite 1: Clear Vision of Talent

A clear definition of talent needs to be stated, agreed and disseminated throughout the organisation, to avoid what is still frequently a subjective process of selecting the best candidate for promotion out of a list of three high potentials.

Prerequisite 2: Create Talent Leaders

Great leaders are often described as those who can inspire, motivate and model the culture and values of an organisation. While this visionary leader is certainly necessary, a company will also find talent leaders indispensable. These are leaders who are able to make the right people decisions, and who can use talent as a strategic lever to drive business outcomes.

All too often, managers are asked to comply with rules of performance management, talent reviews, reward and so on. In many cases, this can degenerate into a mere tick-box exercise that adds little real value. At the other end of the spectrum, managers are expected to demonstrate all the soft skills, such as providing feedback, motivation and coaching to employees. However, the part in the middle is often neglected. This middle layer is about more than just using the tools and processes provided by HR; it is about using sound judgement and good decision making regarding talent.

The decisions that matter most are close management of underperformers and top performers, placing the right people into roles and assignments, and setting performance goals and standards. These decisions may look different at different levels in the organisation. For senior leaders, it may be the strategic view of the shape and velocity of the pipeline; for a manager of managers, it may be about setting performance criteria and aligning with business goals; for front-line managers, it may be about the right hiring decision and setting clear performance standards.

Prerequisite 3: Data and Governance

To enable managers to make these decisions about talent, HR needs to provide them with:

- Governance of processes – All the processes need to be widely available and well-known.
- Data analytics – The right information is available at the right time in an easily digestible dashboard style.
- Decision governance – Managers own the decisions and processes.

CONCLUSION

Active interventions in talent management are particularly important in the US and Western economies, to compensate for slow growth and turnover. In high-growth, high-turnover environments, the focus on managing external talent pools is much more critical. In either case, however, talent management needs to be increasingly strategic and linked to segmentation of the talent population, understanding the optimal velocity of the talent pipeline and being proactive in decision making.

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TALENT MANAGEMENT PRIORITIES IN EUROPE

TALENT PRIORITIES IN EUROPE

Even in a recession environment, talent management remains a critical issue for chief executives and is undeniably a top priority for business success. A 2012 Conference Board survey[1] of 776 chief executives from around the world revealed that the war for talent sits alongside the race to innovate and the hunt for new markets, and it is seen as one of the critical factors defining today's global business environment. CEOs also list talent as a key factor in addressing other top business challenges, such as business growth, innovation and cost optimisation.

Looking ahead, five workforce trends will shape talent priorities in Europe: talent deployment, engagement, diversity, soft cloud and increased globalisation.

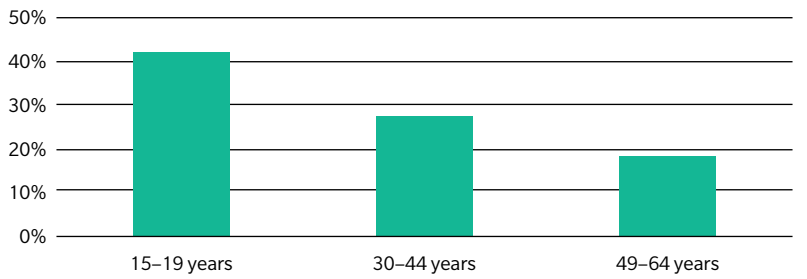
TALENT DEPLOYMENT

Organisations have been facing enormous shortages of talent and key skills across the globe. Europe does not appear to be faring badly, but skill mismatch seems to be a problem. One of the key challenges for Europe is not just to improve skills, but to match its already highly qualified workforce to the jobs available today and in the future. Right now, the European Union counts about 24 million unemployed workers opposite six million job vacancies. The European Commission[2] estimates that in Europe, overeducation averages around 30%, with at least 40% of those ages 15–19 being overeducated for the types of jobs available. This means that the underuse of skills and competencies will emerge as a real problem, particularly among the younger generation.

[1] For more information, see *The Conference Board CEO Challenge® 2012: Risky Business – Focusing on Innovation and Talent in a Volatile World* (March 2012), available at http://www.conference-board.org.

[2] The study report can be accessed at http://ec.europa.eu/europe2020/pdf/themes/19_skills_gaps_and_labour_mobility.pdf.

Figure 1
Overeducation by Age, Based on European Commission Data



The challenge facing European governments and businesses is to match individuals with the right skills to the jobs available. From an employer's perspective, it is difficult to obtain engagement when you are putting a person in a job that is unsuitable for his or her background and skills. The underlying causes of skill mismatch can be attributed to several factors, such as incomplete information in the labour market and education and training systems that are not responsive to labour market needs. These challenges have implications for talent management, and organisations therefore should consider the following:

- Collaborate earlier with universities and educational institutions to ensure that the degree and vocational courses are aligned to the needs of the labour market. Recruitment efforts from these places should start earlier. There is already evidence that blue-chip organisations are recruiting second-year university students and that organisations are penetrating universities at an earlier point in students' degree courses.
- Take a proactive approach to workforce planning and management to foster the match between skills supply and demand.

ENGAGEMENT

The majority of employees in Europe are disengaged to some extent. Mercer's latest *What's Working*™ survey,[3] conducted among nearly 30,000 employees in 17 markets worldwide, provided revealing insights into the minds of the global workforce. Mercer's research found that 34% of employees in Europe are seriously considering leaving their organisation. It's a frightening number and has serious implications for organisations. Apathy is also increasing among employees, with 24% not committing to leaving or staying with the organisation.

Looking deeper across different age demographics, loyalty among generation Y is increasingly eroding, though this does not mean they are less likely to be engaged. Workers in this generation can be extremely hard-working, but they are looking for the next stage of their career development and it is not necessarily a traditional career path offered by

[3] To learn more about Mercer's *What's Working* survey and its findings, visit http://inside-employees-mind.mercer.com/home.

an organisation. Our research shows that employees ages 34 and younger are the most likely to leave their organisations at the present time (8% difference from the overall workforce) – despite being more satisfied with both their organisations and their jobs – and are more likely to recommend their organisation as a good place to work.

The contradictory nature of generation Y presents challenges to organisations, particularly in the area of talent management. We recommend that organisations take the following actions:

- Develop multiple engagement strategies targeted for different levels of commitment.
- Leverage the use of social media tools to a greater extent to create a "conversation" with younger workforce segments, adopting a more suitable language and mode.
- Move away from traditional career paths and begin offering more career "experiences" for the younger generation.

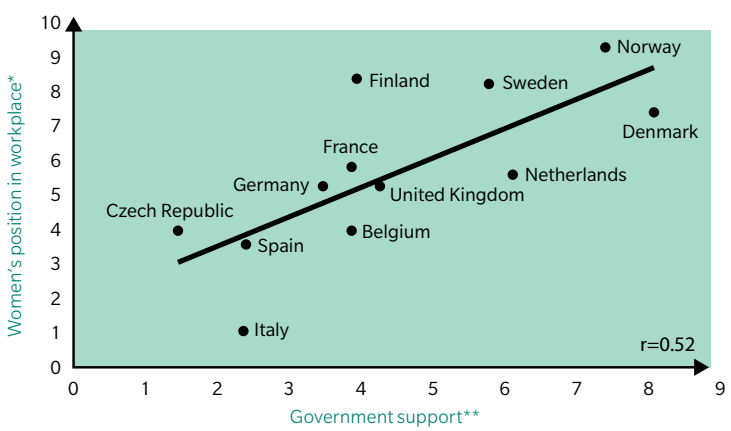
DIVERSITY

In Europe, organisations are facing an increasingly diverse workforce, in terms of both gender and age. Gender diversity is topping the agendas of many European governments, and this is reflected by the increasing amount of state support given in areas such as tax breaks, legislation in the form of quotas and other support mechanisms. The graph below demonstrates the strong correlation between government action and the increased presence of women on the boards of companies. There are some anomalies: Finland has one of the highest scores for representation of women on companies' boards, yet it invests less than the Netherlands and Denmark in terms of government support.

Figure 2

Correlation Between Government Support and Women's Position in the Workplace

Number of countries = 12



* Average of indicators: board representation of women; women's share of men's working hours; employment rate of women

** Average of indicators: number of children in child care; government expenditure on family/children as percentage of GDP; proportion of men working part time

Source: European Commission; Eurostat: 2010 Catalyst Census

We predict that a number of European governments will take forceful action in the next couple of years. For example, it seems highly probable that the elected French president, Francois Hollande, will implement hefty fines for French companies if they fail to have 50% representation of women on the board.

Although we expect to see more women in the workforce in the next few years, one of the outstanding challenges for organisations will be to implement HR strategies that address the loss of women in middle and senior management. It is well-known that organisations lose women as they reach more senior levels. Mercer analysed 264,000 senior management jobs at approximately 5,300 organisations across 41 countries and found that countries in the former Soviet bloc had the highest percentage of women in senior-level positions (44% in Lithuania) compared with 28% in Spain, the UK and France.

Although women's representation on corporate boards in European countries has grown in the past four years, their representation on executive committees – where the critical organisational decisions are made – remains low. This is one area that organisations need to address. But it is not just about the culture of the organisation; a country's culture is at play as well.

EU PUSHES 40% FEMALE QUOTA ON CORPORATE BOARDS

Regarding women's representation on corporate boards in European countries, the situation varies widely. Eleven EU member states, as well as the European Economic Area member state Norway, have already introduced legal instruments to promote gender equality on company boards. In eight of these countries, the instruments cover public undertakings. Meanwhile, in two-thirds of the member states, no legal measures were introduced and no significant progress has been made in recent years.

In France, women make up 22.3% of women on the boards of French blue-chip companies – after the country introduced quotas, with an aim of 40% women by 2017. The Netherlands has mandatory quotas for women but lacks major penalties to back them up. Spain and Italy are among the EU countries that have voluntary quotas. In the UK, the House of Lords EU Select Committee has criticised the idea of mandatory quotas for the number of women on EU boards.

The EU directive proposed in November 2012 will apply to private companies listed on the stock exchange that have a percentage of women lower than 40% among non-executive directors. This should be on the basis of a comparative analysis of the qualifications of each candidate, by applying "transparent and unambiguous criteria" in order to meet the 40% objective. The proposal is expected to apply to about 5,000 publicly listed companies in the EU. It does not apply to businesses with fewer than 250 employees and an annual worldwide turnover of less than €50 million. The 40% target is binding, but not reaching it does not mean that there will be sanctions against a company.

Organisations can have initiatives in place to address gender diversity, but they will still be fighting the cultural barriers of the countries in which they operate. This will require organisations to adopt different approaches to managing gender diversity. Below are some recommendations for organisations:

- Build a culture of diversity and inclusion.
- Develop recruitment and promotion processes that take into account unwitting biases.
- Spread out mentorship programmes.
- Create a more balanced work environment.

From an age perspective, Europe will have an increasingly diverse workforce in the future as well. The European Commission data indicate that, in spite of a high unemployment rate, a large number of millennials will be entering the labour market. Alongside that, pension reforms across Europe will likely cause more employees to remain in the workforce for a far longer period of time than originally anticipated.

Organisations will also have to contend with the contradictions presented by generation Y (ages 16–34). This age group is more likely to think and act like their age-group peers around the world. Keep in mind that generation Y has already developed its own global peer network through social media tools such as Twitter and Facebook, resulting in an unprecedented cultural alignment. Interestingly, all the other age groups are far more likely to think and act within the established cultural norms of their particular country. Our own research has indicated that generation Y's allegiance is to themselves and their careers, and this has major implications for how organisations should manage this youngest segment of the workforce. We recommend that organisations address the generational challenges of their workforces in the following ways:

- Introduce reverse mentoring programmes.
- Enhance learning through career experiences.
- Deliver a segmented talent strategy to address the specific needs of generation Y.

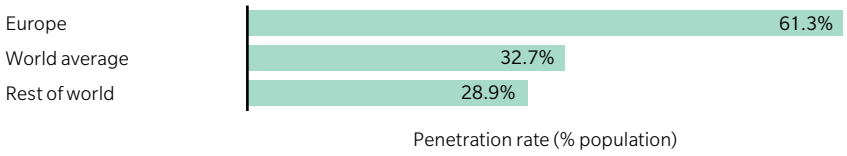
SOFT CLOUD

Internet penetration among European countries is driving social network diffusion. As of 31 December 2011, there were 500 million internet users, with 61.3% penetration.

Figure 3

Internet Penetration in Europe

31 December 2011



Source: Miniwatts Marketing Group (2001–2002). "Internet World Stats", available at http://www.internetworldstats.com/stats4.htm. Based on 2,267,233,742 world internet users as of 31 December 2011.

Europeans spend 27.5 hours a month on the internet. Europe also has the largest number of Facebook subscribers in the world, with 223 million users. However, organisations tend to use Facebook in a passive manner, and there are opportunities to use social media for engagement and innovation. We recommend that organisations do the following:

- Design and adapt talent-acquisition processes focusing on social recruiting.
- Leverage social media as a technology and cultural platform for talent management, and use it for onboarding, learning and development, and performance and career management – particularly for generation Y, as this group wants to contribute ideas through social media to improve the organisation.

COCA-COLA'S EFFECTIVE APPROACH TOWARDS ENGAGING YOUNGER WORKERS

An example of an innovative organisation that has actively engaged its young workforce is Coca-Cola. This beverage conglomerate has introduced reverse mentoring for its workforce, in which the average employee is in his or her mid-30s. On a one-to-one basis, Coca-Cola pairs generation Y employees with older, more senior employees – with the goal being to foster a dialogue rather than a one-way conversation. The company has also established an "affinity" group consisting of generation Y employees from across its operating groups who meet up with the leadership team within Coca-Cola. Interns and management trainees are leveraged to present their views from a generation Y perspective and to tell the organisation how it could improve internally. Coca-Cola also has an internal social media capability, called "Chatter", through which the company communicates with its generation Y employees and uses the ideas generated by this forum to innovate.

Note: Information courtesy of Stevens Sainte-Rose, HR Director Eurasia Africa Group at The Coca-Cola Company.

GLOBALISATION

Globalisation is now a part of everyday business for larger European companies. But we find that many organisations do not have a global culture that reflects the marketplace in which they operate. There are several important drivers for globalisation, including:

- Access to foreign markets, driven by the easing of governmental restrictions in many countries
- A business focus on following customers into foreign markets and observing international development and its speed

The main obstacles for organisations to collaborate globally are:

- Language or cultural barriers
- Lack of face-to-face meetings
- Regulatory barriers
- Difficulty building trust and partnerships

To meet the talent management priorities created by globalisation, organisations will need to have the infrastructure to build global talent management platforms, and leadership needs to be transformed so that it can thrive in a global and diverse environment.

CONCLUSION

The five workforce trends we've described have clear implications for organisations in Europe. Many talent management processes will require reshaping to fit the new scenario.

In summary, organisations should look at the following areas:

TALENT STRATEGY

It will be all about having a talent strategy that offers a global platform allowing you to segment your workforce populations, with a special focus on generation Y so that you can differentiate your talent management processes and tools to cope with the different needs of this group.

A forward-looking focus will be required as well, with a growing need for strategic workforce planning to address future capability requirements.

TALENT ACQUISITION

Organisations should review this process and start engaging candidates at an earlier life stage to identify and strategically plan for their specific future needs.

Organisations should also use social media in innovative ways to attract and engage generation Y.

CAREER MANAGEMENT

Traditional career paths are becoming obsolete and unmanageable due to the speed of organisational changes. Career management should be rebuilt around the concept of "career experiences" gained through special assignments, international/multifunctional projects, situational roles and other creative ways.

LEADERSHIP

Leaders today must be fit for a global and inclusive culture, putting at the centre capabilities such as cultural sensitivity, sense of adventure and global mindset, among others.

Organisations must carefully examine and use proper mentoring and reverse mentoring practices in order to engage and motivate all segments of the workforce – especially generation Y.

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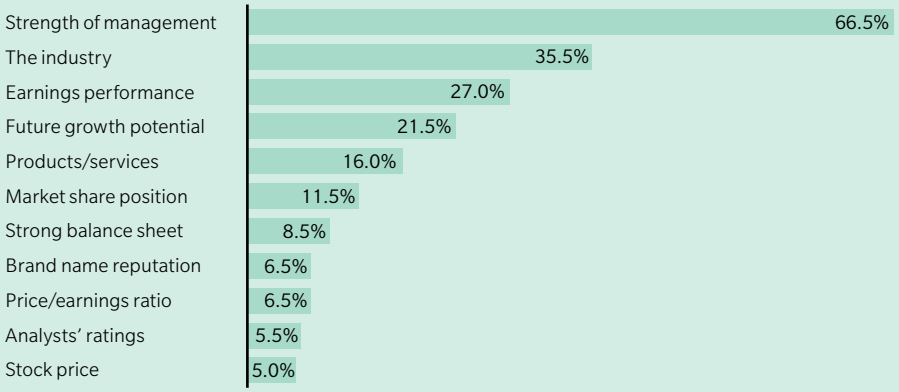
THE ANALYSTS' LENS ON LEADERSHIP EQUITY

Who controls the assets that have the most sway with equity analysts? If you said senior talent leaders, you would be right – but probably puzzled as well, given what most investors talk about when they refer to the critical assets of a business.

We came across this insight when we were delivering a senior leadership programme for Mercer to a large global pharmaceutical organisation. The firm's Vice President of Investor Relations was making a presentation to the group and showed the chart contained in Figure 1 below. In this figure, you can see that the most important factor that analysts consider in formulating their stock price recommendation is the "strength of management". Being somewhat sceptical about these survey findings, we explored other studies, such as those recently published by Deloitte (2012), which examined the same issue, and all show the same result. Analysts are heavily influenced by the strength of management or leadership when coming up with their recommendations regarding a firm's worth – in the simplest terms, to buy, sell or hold.

Figure 1
Most Important Factors Influencing Investment



Factors representing less than 5% are not shown.

Source: Research of 200 financial analysts by Corporate Branding, LLC

Nevertheless, we still remained somewhat puzzled because we had assumed, like many others, that analysts were primarily interested in quarterly results and what are commonly referred to as the "hard" or "tangible" assets in determining a firm's worth versus something so nebulous as "leadership". Although we do know that when examining a firm's assets, analysts consider what is called "goodwill", which encompasses such things as the quality of leadership, we did not think it significantly affected their estimates of a firm's worth. We were totally wrong, as it not only affects their estimates, it affects them on par with some of the most tangible assets.

Yet, while remaining somewhat sceptical of the idea, we decided to further check our assumptions concerning the contribution by management and leadership to estimating a firm's worth by listening in on a sample of analyst calls. The calls, which are arranged by organisations' investor relations groups, provide analysts an opportunity to hear from and ask questions to the chief officers and other senior executives. As we listened to these calls, we coded the kinds of questions raised by the analysts. Of the 100+ questions analysts posed on these calls, only three of them pertained to leadership, and of those, two were seeking clarification on executive appointments. We also reviewed a randomly selected set of 20 analysts' recommendations drawn from across industries. None of them specified leadership as a factor contributing to their buy, sell or hold recommendation. These findings were rather curious given what we found in the research studies.

THE ROLE OF LEADERSHIP QUALITY

We thought that on the one hand, analysts say that leadership strength is important, but on the other hand, they do not seem to be focusing on it – at least in questioning it or gathering data to estimate their value. This inconsistency led us to the next step in our quixotic journey to determine how the strength of management and leadership factored into determining an analyst's estimate of a firm's value, which involved interviewing 40 analysts from all around the globe and across industries. Among other questions on the topic of estimating a firm's worth, we asked them: "How do you factor leadership quality into your recommendations?"

The first thing we learnt was that the more experienced analysts (more than five years' experience) take what we would call a *three-pass approach* to valuing leadership:

- First pass: forecast cash flows – In the first pass, they do the basic math. The analysts gather the macroeconomic, industry and company data that allow them to forecast the future cash flows of the organisation for the next five to10 years, and to impute the future value of the stock. In this first pass, the analysts look to Investor Relations for data and look to the CFO and CEO to explain the organisation's strategy and the footing they believe will deliver these estimates or numbers.
- Second pass: adjust for near-term risk – In the second pass, most analysts ask whether the short-term targets (one to two years) are attainable and, if not, they try to determine and apply risk factors accordingly. To set the appropriate risk factors, the analysts we interviewed rely on historical databases provided by third-party vendors and pooling of other analysts' forecasts (weighted by historical accuracy, such as an analyst's StarMine ratings, which is sort of a box score representing the analyst's accuracy in predicting a firm's performance). These analysts also listen to the Chief Operating Officer or Head of Manufacturing on Investors Day as he or she describes specific enhancements the organisation has made to address known execution issues, ranging from the implementation of new technologies to reconfiguring supply chains. Based on all the data, the analysts move their estimate of the price up or down to an execution-risk-adjusted price.
- Third pass: adjust for long-term risk – In a third pass, the more experienced analysts ask a similar question pertaining to the risk associated with the forecast, but with this pass they are now looking at three to 20 years. Typically these analysts have followed organisations in turbulent industries facing radically changing markets, consumer tastes, regulations and technologies. As a result, in this third pass, the analysts essentially ask themselves whether the leaders at the top and those emerging can get their organisations from here in the near term to there in the long term. As they set out to answer this question, they do not seek data from the organisations they follow and also make no reference to the data in their recommendations. They essentially go outside of the organisation to gather whatever data they can from a broad range of sources – for example, websites, trade magazines, interviews, etc. – that they use to come up with their final estimates.

OTHER FACTORS IN GAUGING LEADERSHIP PERFORMANCE

We were still left wondering why most analysts don't seek data on predicting leadership performance, and why they choose not to specifically reference leadership in their recommendations. These 40 interviews indicated that the reason appears to be the analyst's approach to examining leadership. Specifically, when we asked each analyst to choose a particular organisation they follow and to share their assessment of the leadership in that organisation, they told us stories they had heard about the leaders. They described previous roles the leaders had played in other organisations and the lore around their impact. They also shared their personal impressions of the leaders, gained from their observation of Investors Day presentations or through other public venues. Consistently, their main focus was on the top management team as the source or locus of leadership.

It became increasingly clear to us that the analysts didn't highlight leadership in their recommendations because their judgements were based on highly subjective input that they could not rigorously defend. Specifically, analysts never referenced any empirical studies or shared any specific facts about judging leadership beyond what one could discern from a leader's resume or watching the leader present. For most of the analysts we talked to, leadership assessment is a subjective, "artistic" judgement. They would say that their judgement is based on years of observing leaders, tracking their decisions and noting their impact. Absent from these descriptions is any specific evidence-based model or framework that they would leverage to make their judgement on the firm's leadership quality. Essentially, the final stock price estimates linked to management or leadership strength are based on the analyst's intuitive judgement, which none of the interviewees could actually explain other than to say, "It's a best guess or something you just do based on your gut impression or intuition." So, we don't know how they come up with the actual discount rate or estimate of leadership quality, and neither do they.

Actually, the way that analysts make their decisions about leadership does not differ from what most decision theorists would say is a plausible approach to arriving at a final judgement. In a situation where a complex phenomenon needs to be evaluated, an assessor with deep experience in this situation is more than likely effective when he or she judges the patterns rather than gets stuck in analysing every bit of data. We talked to one head of Investor Relations who put it well. He said, "Even if you could boil leadership strength down to one comparative number, the analysts wouldn't believe it – they know it's more complicated than that."

THE IMPACT OF ASSESSMENTS ON STOCK PRICING

Our last finding was the most surprising. We asked each analyst by how much they adjust their stock price estimate to reflect their assessment of the organisation's leadership quality. All gave answers in excess of 5%, and some had previously made adjustments by as much as 30%–50%. To validate these and our other findings, we conducted an online survey in 2011 of a broader global sample of 305 analysts through a partnership with Forbes Insights. Three-quarters of the analysts in this global sample indicated that they have adjusted stock price estimates in excess of 15% on average and, again, the more experienced the analyst, the greater the adjustment.

We believe that the implications of our findings are profound for senior leaders and those involved in the management of this talent. In the third pass, analysts watch senior leaders, track their decisions, compare notes with other industry observers, ask competitors and executive professionals what they think about the leaders, and reflect on their own experiences with those leaders and the stories they hear about them. Based on this aggregated information, analysts may adjust their stock price estimate by as much as 15%. In passes one and two, the analysts look to the CEO or COO for data, background guidance, interpretation and elaboration. In the third pass, although no one was named, executives managing the leadership talent in organisations – such as the Chief Leadership Officer and the Chief HR Officer – are the logical source for a more comprehensive assessment of the strength of top team leadership and management.

After we completed our research, we shared our findings with several senior leaders responsible for talent management and noted three consistent reactions. First, all of them were surprised (as we had been) that analysts ranked management or leadership strength so high in the assessment criteria. Second, they were quick to recognise that this provides a significant opportunity for them and their organisations to think about how they develop and promote their leadership-quality "brand." One talent leader captured it well: "There aren't many things we can do as an organisation that add 15% to our equity value overnight." Third, they indicated that some key shifts were required if they were to succeed in exploiting this opportunity. We specifically heard about six shifts. (See Table 1 on page 20.)

Table 1
Key Shifts for Senior Talent Leaders

SHIFT	FROM	TO	REQUIREMENTS
1. Importance of leadership quality	Low on organisation's and CEO's agenda	Top of organisation's and CEO's agenda	Need to be "street savvy" and understand how analysts estimate your firm's stock price
2. Lens for leadership quality	Private, internal matter	Exposed, public matter	Need to become a marketer of your firm's leadership quality and systems that develop such quality in the same way your firm markets products/ services
3. Who is responsible for leadership quality	HR responsibility	Collective responsibility of the top leadership, including talent leaders	Need to develop a trusted voice with the analysts in areas where the estimates of your leadership quality may not always be where you hope they would be, but your estimates are defensible, rigorous and relevant to what analysts need
4. Goal of analyst interactions around leadership quality	Telling them what we want them to know that presents a positive picture	Providing them with reliable and valid, verifiable data that track the quality of leadership and management	Need to develop systems that provide rigor, relevance and reliability that analysts will trust in determining what represents the quality of leadership
5. Focus of what to communicate around leadership quality	Showing them how we are improving our leaders against a competency model and, in turn, the return on investment	Empirically demonstrating existing capability of leaders relative to achieving the targets in the firm's strategy (risk of asset)	Need to frame leadership quality relative to strategic risks, pointing to the gaps and the methods that will be used to close those gaps
6. Target population for leadership quality	Current top-level leaders	Leaders in the wings and multiple levels within an organisation, ultimately gauging the quality of the entire "leadership system"	Need to be more transparent with succession plans, progress towards developing the leadership talent required and key milestones that detail progress towards optimising the leadership talent profile of the organisation

At a recent Conference Board session attended by Fortune 500 Chief Leadership Officers in May 2012, we asked the talent leaders in attendance to complete an anonymous survey gauging their current ability to meet these six requirements. Less than 5% rated themselves as ready. Interestingly enough, the analysts are ready, but the individuals who manage the leadership-talent brand in organisations are not ready yet.

CONCLUSION

In 1997, the clarion call for HR leaders was to improve their understanding of how the business works so they could serve business leaders more effectively – the ubiquitous desire of HR leaders to assume "their seat at the table" of top management. Fifteen years later, a new clarion call may be around the corner. HR and senior talent leaders are being asked to develop their business acumen further. Going forward, they will be expected to understand how the business is valued externally so they can monetise the value of the business leaders they serve more effectively. At least 15% of a firm's worth may be dependent on whether they hear that call.

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ential growth

TALENT CHALLENGES AND SOLUTIONS IN FAST-GROWING ECONOMIES

COCA-COLA TESTIMONIAL

At Mercer's Talent Management Summit 2012, participants examined the equation of growth, turnover and managed interventions in both mature and high-growth markets. In developed economies, where growth and turnover are low, heavy interventions are necessary to stimulate "velocity" in managing talent, whereas in the emerging markets, interventions serve to mitigate high turnover. This article summarises the summit discussion on talent challenges and solutions in fast-growing economies, and embeds contributions from Stevens Sainte-Rose, Group HR Director Eurasia Africa, Coca-Cola.

The socio-demographic megatrends shaping the world economy today are many and varied: the economic crisis continues unabated in the eurozone, complemented by political movements in the Arab world; migration barriers across Africa and the Mediterranean are being relaxed; the BRIC economies are still growing, but at a slower rate; and the social, political and economic power of women in many emerging markets is on the rise. In the medium term, we face demographic changes, such as the ageing workforce of the Western world. We also see increasing globalisation, together with a public backlash against it. In many instances, the corporation is replacing the state in providing for the welfare of its employees and beyond. In the long term, emerging markets are investing in Western stock exchanges – China and the Arab states in particular – which raises issues of ownership going far beyond European football teams.

The integration of emerging economies into the global market seems to be happening much faster than expected. While there is a growth of a middle class, the majority of people in these emerging economies still live in poverty.

MULTIDIRECTIONAL TALENT MOBILITY

Under these conditions, what is happening to global talent? First, there are more migrants – an estimated 200 million worldwide – and there is more internal movement within the developing world. The change there

is that around 40% of these workers are now moving from China, Africa and India to the Western world. To maintain economic growth, the US is expected to require an additional 25 million workers and Europe an additional 45 million workers by 2030, comprising not only blue-collar workers, but also qualified, white-collar workers. Foreign workers file the majority of patent applications in the US, and at the same time, developed economies are experiencing a "reverse brain drain", with top talent increasingly moving back to their native countries. The 20th century trend of one-way migration patterns is now becoming multidirectional.

Given these circumstances, managing the talent pool in a high-growth environment requires a combination of strategies. We still need to ensure talent retention, but we should focus more on acquiring talent and building the pipeline.

BUILDING TALENT PIPELINES

Stevens Sainte-Rose: It is important to always start with the business objectives and not just react to the market. Imagine dealing with 92 emerging markets that have little in common: for example, Russia, Ukraine and Belarus have very little in common with India or Africa or the Middle East. There is no unifying language and no common council. The only common ground is their growth potential. In 2010, the CEO of Coca-Cola said, "What took Coca-Cola 125 years to build will be double the size in 10 years." So our 2020 vision is certainly not an option for the faint-hearted! In Eurasia Africa Group, our strategy is to diversify our market portfolio and our portfolio by category offerings, making inroads into juice, water, energy drinks and so on. How are HR and talent acquisition going to enable that? Because it is not as easy as saying "We are going to double the size of our employee headcount." We look at our capability planning from a much longer-term perspective: it isn't just about people skills, culture and leadership, but also about structures, processes and routines. For us, crucially, it is also about technology: what can we invest in and put in place so that we don't have to double the size of our employee base?

In terms of talent acquisition avenues, we use all the traditional channels – print media, internet posting and recruiters – but we also do newer things like social media. Most people expect us to use LinkedIn, but in emerging markets the internet is not used in the same way as it is in established markets. As many people do not have money to buy computers, candidates go straight to smartphones. So our talent acquisition teams are looking at ways people are marketed to on their mobile devices and send people messages about our company on their phones. We also created our own in-house recruitment firm. External

search firms have a place in our strategy, but we also have an internal team that provides additional services for us. It has been really effective and has paid for itself, as it does the following:

- It establishes an external talent pipeline, where we build ongoing relationships. When we do have the opportunity to invest, we already have the relationships in place.
- It provides a global network with hubs on all continents. The team has the information about who could move from South Africa to the US or, even better, who in the US is South African and could be enticed back to build a bridge to their country.
- It creates a longer-term view for diversity, especially regarding women and younger generations, including relationships with universities.
- It manages our reputation externally from the talent perspective. Coca-Cola aspires to be on the "Best Places to Work" list in our six key markets: South Africa, Turkey, India, Russia, Nigeria and Egypt.
- It uses all of our senior leaders as references (through our own contacts) for long-term external capability planning.

As far as universities go, longer-term partnerships are key in emerging markets. These markets are experiencing a population boom and more university degrees are being awarded, but typically these are for lawyers, doctors, teachers and so on. Marketing, HR, public affairs and finance are still relatively new disciplines, so multinationals need to partner with universities to help build those curricula. Our internships and management development programmes used to be siloed to each geography, but now we have a more unified approach, so when we go to a university in India we can talk not only about our programmes there, but also about all of our internship and management development programmes around the world where we can send qualified people.

Ultimately, it is about leveraging who we are. Everyone knows the brand, but just being Coke is not enough – we have to enhance our value proposition. There are five components, and I don't believe that many companies can match us across the board. First, we have hundreds of brands around the world, 15 of which are valued at US$1 billion. Second, we are a franchise set-up, so we offer people the opportunity to work in over 200 companies under one umbrella organisation. Third, we are global, with locations in more than 200 countries. Fourth, our heritage – 125 years; we offer stability and confidence for the future. Fifth, something that doesn't often get talked about – we do a lot from a sustainability perspective in our communities. This is not negligible in emerging markets. Students there are willing to take a little bit less pay if they can use our company to give back to their community and country.

One problem that we encounter in emerging markets is the lack of sophisticated data regarding the employment offer, as we have in Europe. To understand compensation and benefits in those markets, we have to get data from multiple sources, and in many places we have to do it more than once a year to ensure that we remain competitive. In some places, it is more about the compensation; in sub-Saharan Africa, it is more about the benefits, like housing and car allowances.

MANAGING THE LEADERSHIP TALENT DEFICIT

Although there is an oversupply of labour in emerging markets, we do not always find the right skills, particularly at the leadership level. Managing this deficit of skills is a key concern for employers, particularly in a situation where engagement is also an issue. It is important to be aware of individual choices and preferences in order to attract, retain and motivate talent. Base pay ranks highly in these markets, which is not that different from the West; however, the importance of career management has increased significantly – it is the second-top concern in China, and the top concern in India.

SSR: The historical challenge with leadership in many emerging markets is that there is a strong traditional patriarchal influence, whether because of communism, colonialism or dictatorship (in some, benevolent dictatorship). Leaders tend to be defined in the singular, and everybody else has to do what they are told. As an anecdotal example, when running an assessment centre in a developing market for emerging leaders, one of the tasks was to role-play a coaching dialogue between a manager and an employee. This was designed to last 30 minutes, but often we would not go over a maximum of five minutes, because the managers would just tell the employees what was expected of them, rather than hold a coaching conversation. So in many of these markets, we are still at the beginning of our leadership journey.

Another factor in the leadership deficit is the relative youth of people in leadership positions: in Japan you are, on average, 50 years old at a certain management level; in the US, you are 40; while in these markets you are merely 30 for similar management levels – so no wonder this is a far less experienced generation. Over one-third of multinationals believe that succession management and scarcity of leadership talent are the next big issues.

COLLABORATION FOR TALENT

One of the key findings of the recent World Economic Forum/Mercer research on Talent Mobility Good Practices[1] is that most of the talent mobility good practices are based on the principle of collaboration.

[1] *Talent Mobility Good Practices Report*, Mercer/World Economic Forum, 2012. For more information, visit http://www.mercer.com/globaltalent.

Collaboration can be internal – within the various departments and operations of an organisation – but also external – within an industry sector, within a market or country, where employers partner with governmental and non-governmental bodies, academic institutions and peers to develop external talent pools from which everybody can benefit. Is the age of the "war for talent" over? Are we entering a new era – that of "collaboration for talent"?

SSR: All the things that make us great – working with 200 franchisees worldwide, for instance – can also be our biggest challenge. We are beginning to realise that to win, we have to work together with our franchisees on talent and build career paths in a systematic way, rather than leave it up to associates to figure out their way. The younger generations want the whole value chain, the end-to-end experience, and ultimately it is preferable to lose somebody to a franchise than to the competition. Looking at socio-demographic trends, we have both generation Y and female employees saying that the current organisational way of working is making it difficult for them to develop and stay. In emerging markets especially, more university degrees are being awarded to younger people and women, but is our company culture evolving to keep pace with the change required to develop and grow these demographics?

If you look at talent mobility, for example, many expatriate packages are still tailored to the older male employee, and we need to be more flexible – instead of providing coverage for you, your wife and 2.5 kids, maybe it should cover you as a woman from Africa or Russia, your children and your mother, because you have no husband, and a grandmother is as much a part of the immediate family as a spouse is.

We experience mobility issues in pockets: in China, Russia and Turkey, employees don't want to relocate, while in Africa and India, many are mobile. So you have to segment for that and factor in for the support system to move with them.

I would also like to raise the issue of how we as businesses and HR professionals can go beyond merely reacting to actively influencing what is happening in the environment we are operating in, and perhaps help change the realities. This is not just paying lip service to corporate social responsibility, but finding solutions to how to grow the community and identifying how to ensure that business and community work together by making sure that workplaces are fair for all workers, which can be a challenge in emerging markets. How can we work together with governments and NGOs, not just universities, to help build the skills at the bottom of the pyramid?

In strategic planning, we typically start from an analysis of the environment and then react to it. These days, we need to start to think proactively on how we can help shape and change the environment. The lessons from emerging markets are not just for the emerging markets, but also for our Western economy. Our role in HR grows bigger as we manage the social implications of what we do as a corporation.

GLOBALISING COMPANY CULTURE

Finally, what do we mean when we say that the company culture needs to globalise? We certainly need a common platform and set of tools, but we also need to allow segmentation and adaptation to different cultures – perhaps do a bit of "social engineering". Culture needs to be consciously and intentionally projected, and we need to be able to handle these "soft skills" in a very effective manner. Ultimately, they enable a programme to succeed. Corporate culture needs to be rethought to be much broader and more flexible than we had expected while not losing our consistency in applying our HR tools.

SSR: It is time to move on from being the HR business partner, and merely reacting to business needs, to becoming the HR business leader who is focused on growing the business as much as any other business leader. Talent is moving up the business agenda – it even dictates the agenda. HR professionals have to be much better at focusing externally and acquiring marketing skills, such as employee population insights, segmentation and data analysis, and they should use all of that to communicate in a variety of ways. Customers and various external stakeholders are asking more of companies. If we truly are business leaders, HR should have a role to play in helping the company bring value to those constituents.

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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.

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EXECUTIVE REMUNERATION IN GLOBAL FINANCIAL SERVICES

REGULATORY DEVELOPMENTS LEADING TO STRUCTURAL CHANGES IN EXECUTIVE COMPENSATION AND THEIR UNINTENDED CONSEQUENCES

In the wake of the financial crisis, remuneration regulations were imposed on the financial services industry to discourage imprudent risk-taking by crucial players in the sector. As these regulations continue to be subject to changes, and as their implementation is nearly complete, organisations in the financial sector have significantly changed their executive compensation programmes. These developments have led to a number of unintended consequences that may potentially present new difficulties for the sector.

Mercer recently held a roundtable discussion among major financial services companies, during which senior HR and compensation executives discussed these topics and their organisations' related actions. This article reflects the major issues emerging from these discussions, which were reinforced by a snapshot survey of the actions participants had taken.

REGULATORY REQUIREMENTS AND DIFFERENCES AROUND THE GLOBE

The Financial Stability Board's (FSB's) *Principles on Sound Compensation Practices and Implementation Standards*[1] contains three principles for regulating compensation effectively and addressing possible ways to minimise potentially harmful, excessive risk-taking. First, an appropriate balance of risk and reward needs to be found by both deferring payment and establishing longer performance periods. Payment should not be made until risk outcomes are better known, subject to adjustments for performance that become clearer over time. Second, incentives are adjusted to the risk the institution is exposed to by the respective individual's activities through implementing appropriate risk management and effective controls. And third, the involvement of independent

[1] Available at http://www.financialstabilityboard.org/publications/r_090925c.pdf.

bodies, such as the Risk Management function and Board of Directors, in the structuring and implementation of incentive-based remuneration should be ensured, leading to stronger corporate governance.

Unfortunately, this is not a level playing field, with national regulators taking somewhat different approaches towards their respective remuneration requirements.[2] There are meaningful differences globally, such as companies in scope (for example, incorporating proportionality and insurance companies), employees covered by regulations (for example, identification of material risk takers) and the way pay needs to be structured (for example, prescriptive set of rules versus principle-based guidelines). The FSB's 2012 review[3] indeed indicates that no common criteria exist about how to identify material risk takers and the application of the proportionality principle. In addition, the details of criteria or even the existence of any criteria vary heavily among jurisdictions. Implementation differences may apply according to the business model and the risk profile of the respective organisations, but cross-border supervisory cooperation should improve to ensure that it does not lead to regulatory arbitrage.

Although institutions are primarily bound by the regulations of their home regulator, they also experience pressures and requests from local regulators in a large number of the jurisdictions to comply with local requirements. It is an ongoing challenge to meet the local requirements while also remaining compliant with the home regulations, as the different requirements can present conflicts. These local differences make it difficult for organisations to comply with all the regulatory requirements in various jurisdictions and to maintain a consistent global compensation philosophy.

REGULATORY REQUIREMENTS GOING FORWARD

The media continues to debate the topic of compensation extensively, often receiving and discussing commentary from legislators. In order to restore trust in the sector and establish sound banking markets, new legislation has been proposed that should also address the regulatory differences within Europe and globally. Currently, the European Parliament, European Commission and European Council are discussing the final rules on Capital Requirements Directive 4 (CRD4) in order to react to the industry's needs. The directive aims mainly to level the global playing field in an effort to prevent competitive distortion among European member states and the global market, as the European Parliament's Executive Summary[4] indicates. CRD4, in comparison with its predecessor, CRD3, has a stronger focus on the fact that performance should be assessed over a multi-year period, which takes into account

[2] See Mercer's *Executive Remuneration in Global Financial Services* Executive Remuneration Perspective (Issue 1, 2012), available at http://www.mercer.com/erperspectiveeu.

[3] Available at http://www.financialstabilityboard.org/publications/r_120613.pdf.

[4] Available at http://ec.europa.eu/internal_market/bank/regcapital/new_proposals_en.htm.

the underlying business cycle of the company and of business risk. In addition, CRD4 requires institutions "to set the appropriate ratios between the fixed and the variable component of total remuneration where the variable component shall not exceed one times the fixed component of the total remuneration". Final agreement on the directive has not yet been reached, but preliminary reactions have been fear that an even-less-level playing field will develop, with both other geographies and unregulated industries.

STRUCTURAL CHANGES IN EXECUTIVE REMUNERATION

With CRD4 looming over the industry, responses to previous regulations did their share to change the compensation structures of financial services organisations. In reaction to the regulations, the banking industry and some insurance companies were required to make alterations in their pay structure, performance assessment, guarantees, multi-year compensation (mandatory deferrals and long-term incentives) and governance. During the past three years, as data from Mercer's Global Financial Services Executive Compensation Surveys[5] have shown, organisations intensified their emphasis on base salaries in their pay mix while heavily decreasing annual cash bonuses. In addition, the majority of banking and insurance companies introduced or changed their mandatory bonus deferral and forward-looking long-term incentive (LTI) programmes (which grant awards for rewarding future success in addition to the short-term incentive award; an LTI award generally vests based on performance over a multi-year timeframe going forward). Mandatory deferral programmes have a portion of the short-term incentive award deferred over time, and this portion potentially vests based on performance criteria that consider how business written in an award year develops over a multi-year period (for example, in 2015, performance of 2012 will be tested). These deferral programmes are most prevalent in the banking industry (83% of banks use them), while almost all insurance organisations (94%) use forward-looking LTI programmes. Fuelled by regulatory requirements, the portion of executive variable compensation that is deferred varies between 40% and 60%, with higher risk-taking positions usually having a higher percentage of their variable compensation deferred and at risk based on additional performance conditions.

As for mandatory deferrals, data show that most businesses thus far have opted to base their mandatory deferral payout on corporate performance and not on business-unit or individual performance. This is in spite of existing regulatory guidance, which encourages the latter. According to Mercer's Financial Services Executive Compensation Survey, eligibility for mandatory deferral is typically determined based on both the job level (68% of organisations) and the level of bonus award (68%), but the predominant factor in LTI eligibility is job level

[5] For more information, visit http://www.mercer.com/hc-financial-services.

(91%). The most common design elements for mandatory deferrals are pro rata, vesting over three years. The vehicles used most commonly are cash and stock-based programmes. Generally, a change in the mix of vehicles used in man-datory deferrals can be observed: the preference clearly shifts from stock options to restricted stock and cash. The most prevalent metric to determine final deferral payouts is net/operating profit or loss. As Mercer's 2012 Financial Services Executive Compensation Snapshot Survey indicates, 42% of organisations in all regions and industries use this performance metric.

Comparing mandatory deferrals to forward-looking LTIs, several key differences can be observed:

- While mandatory deferrals are positioned as "carve outs", forward-looking LTIs are considered "separate" from the annual bonus and part of total compensation.
- Forward-looking LTIs are frequently rank- and role-based and thus commonly render only top employees eligible, while deferral plans usually address a considerable population of employees (based on bonus size).
- Mandatory deferral award amounts are directly related to short-term incentives/bonuses, while forward-looking LTI award amounts are defined more consistently based on top management roles.
- Mandatory deferrals are usually paid out of an annual bonus pool and are at least partly expensed in the performance year. Forward-looking LTIs, on the other hand, are not restricted to the annual bonus pool and are generally expensed between grant and vesting.
- Forward-looking LTIs commonly have a longer vesting period, while mandatory deferrals' vesting periods are more typically on a pro rata basis.
- Although most deferral plans are structured to have only a downside and no upside, forward-looking LTIs generally possess both.

In addition to restructuring performance measures to adjust for risk and capital charges, another structural change has been occurring in the performance assessment area: in response to regulations, clawback and malus mechanisms were introduced. The first is intended to reclaim already vested or paid compensation when negligence or other malfeasance occurs. Malus conditions are any performance-based adjustment in unvested deferred compensation over the life of the mandatory deferral. Data show that both clauses are implemented within a majority of banks (80%) and insurance companies (60%). The mechanisms apply to the deferred part of both equity and cash compensation. As clawbacks are relatively new in practice, only a few organisations have reported actual clawbacks of payments (17% in 2011).

Another structural change can be observed in the decrease to near elimination of multi-year bonus guarantees granted in the industry. Single-year bonuses still exist, but more governance is required by the Compensation Committee in monitoring them.

The regulations encourage more involvement from control functions in the design of performance measurements and compensation plans. Our studies show that in addition to Human Resources, the industry tends to involve Risk Management in the design of compensation plans, and this group's influence is planned to increase. At the same time, Compliance and Legal are significantly more involved in the review process, while Audit's role remains unchanged.

INDUSTRY EXPECTATIONS: UNCERTAIN TIMES AHEAD

Uncertain times are not yet in the past. Firms are still cutting jobs in the financial services sector – that much is obvious. The majority of organisations (55%) are expecting some small layoffs, and more than a third of banking organisations expect moderate to large layoffs. Layoffs are least expected in Asia Pacific (33% of the organisations do not anticipate any). In Europe, on the contrary, 86% expect layoffs, and 43% expect them to be moderate to large in number.

Higher capital requirements will have to be faced, and this requires most banks to reconsider and change their compensation programme designs. The most prevalent expected compensation programme changes related to higher capital requirements are changes to performance measures, particularly the use of risk-adjusted return on capital measures.

UNINTENDED CONSEQUENCES OF THE NEW REALITY

As we described, most major banks and insurers have made and will continue to make crucial changes to their compensation programme design in response to regulatory requirements, which have included in the recent past increasing base salaries, placing performance conditions on mandatory deferrals and establishing rather diligent governance by the Remuneration Committee while ensuring more involvement of other control functions in the compensation design process. However, this new reality has triggered a number of unintended consequences.

A major unintended consequence has been the shift from annual incentives to base salary. This increases the fixed compensation costs and diminishes the flexibility to reduce costs in a lower-performance year. At the same time, employees are likely to perceive their compensation opportunities as less valuable, since large amounts are now deferred over time and vesting is linked to performance conditions. As a consequence, pressure is applied on organisations to increase total compensation in order to avoid being rendered less competitive in the

face of unregulated industry segments nationally or less-strict geographic markets internationally. The sole reliance on mandatory bonus deferrals has caused a decline of forward-looking LTIs. When annual bonuses are limited or not provided at all, the link to long-term performance is lost. Most important, because the payout of mandatory deferrals is primarily linked to overall company performance, the impact on individual performance and risk-taking behaviour is questionable.

Some side effects can also be observed from these developments. Naturally, the focus of much of the industry is on being compliant with the regulations – which ultimately results in reduced flexibility and, possibly, reduced effectiveness in the design of compensation programmes. Due to the need for more shares, there is a risk of increased shareholder dilution. And although risk-adjusted performance measurements have improved, there are challenges with comparability between organisations. There is now a disconnect between proxy advisers and regulators regarding the use of relative total shareholder return and other published accounting metrics rather than risk-adjusted, economic metrics in judging pay for performance.

STRATEGIES TO IMPROVE CURRENT SITUATION

As the main challenges of attracting, engaging and retaining talent become even more difficult in the financial services industry, effective strategies must be employed. Rebuilding the financial services industry's image and managing talent perceptions and expectations effectively will be key. Focusing on the total employee value proposition beyond pay strategies may help bring better balance and more of a career development perspective to the industry. Communication will be even more important to help employees understand the rationale and purpose for the structure of their compensation programmes. And companies will be challenged to improve their performance measurement and evaluation processes for considering risk-adjusted outcomes and risk management factors and behaviours. As we have said all along, this is a moving target, so stay tuned for navigating the future.

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FAIR PAY – A DESIRABLE AND FEASIBLE GOAL?

In June 2012, Mercer hosted a debate on "Fair Pay – a Desirable and Feasible Goal?" More than 60 investors, non-executive directors, senior executives, and human resource and reward professionals from many of the largest companies in the UK attended. The discussion was led by a panel of opinion leaders from business, government, the church and media.[1] The overwhelming view was that a fundamental problem does exist and the current concerns about executive pay should not be dismissed as a temporary phenomenon associated with the difficult economic period, during which there have been calls for pay restraint applying to all.

Very high executive pay levels detached from performance and representing a disproportionate share of company profits at the expense of shareholder returns are bound to be seen by the public, politicians and informed commentators as a market failure.

EXECUTIVE PAY – A MARKET FAILURE? AND WHAT NEEDS TO BE DONE?

Several high-profile FTSE 350 companies have faced unprecedented shareholder revolts against proposed pay arrangements for their CEO and other executives covered by their board's remuneration committee report. Shareholder and political disquiet about executive pay has been brewing since before the financial crisis and subsequent recession. Economic events in 2008 and 2009 threw the issue into sharp relief: with four years of public discontent, continual attention from politicians and the media stoking the fire, we are at last beginning to address an apparent market failure.

Indeed, many investors are asking whether executives, who are merely employees, are getting a disproportionately large and risk-free share of the spoils at the expense of shareholders who are investing their capital

[1] Panel: James Featherby, Chair, Church of England Ethical Investment Advisory Group; Sir Peter Middleton GCB, UK Chairman, Marsh & McLennan Companies; Sir Mark Moody-Stuart, Chairman, Hermes EOS, and former Chairman, Shell and Anglo American; Lord Paul Myners, former Financial Services Secretary; David Paterson, Head of Corporate Governance, NAPF; Polly Toynbee, Columnist, The Guardian

and taking relatively unrewarded financial risk. Many also argue that in the UK, FTSE 100 non-executive directors are drawn from too small a pool. Insularity has meant that the primary basis for key benchmarks for executive pay has changed from reward for company performance to pay comparisons within tightly drawn peer groups of similar companies. The result is a shift away from judgements on pay levels to a spiral of inflationary pressures.

"Enough is enough", but the harsh reality is that perhaps the best we can work towards is preventing things from getting worse. Boards need to rise to the challenge by becoming more effective at managing their top talent – and perhaps by calling the CEOs' bluffs. CEOs are not indispensable, and there is no evidence of a vibrant international market for them.

In order to identify where to intervene and how to strike the right balance, this paper explores three challenges – ownership, stewardship, and aligning pay and performance – at the heart of the company-shareholder relationship.

CHALLENGES OF OWNERSHIP

The structure of equity ownership today means that several intermediaries are part of the investment chain, from the beneficiary or asset owners through to professional asset managers. Increasingly, the markets are seeing more short-term holders of stock and fewer long-term investors. Add to this the move from defined benefit to defined contribution pension schemes, and the result is that ownership of UK companies is becoming highly dispersed among investors with varying investment horizons and priorities.

The key ownership activities of voting and engagement are increasingly most often exercised by agents, in the form of delegations to asset managers. Where does this leave shareholder responsibility, in terms of the execution of ownership obligations? And what is the role of asset managers – should they take on more responsibility? Research shows that asset managers will often follow the advice of proxy voting firms without challenge. How can their clients, the asset owners, hold the managers to account for their actions? In this context, is it realistic for the government to expect shareholders to take on the ownership responsibility of holding boards to account on executive pay?

Shareholders already vote on pay packages every year, so the additional impact of the latest proposals from the Department for Business Innovation and Skills (BIS) for binding shareholder votes is debatable, in terms of how much extra responsibility shareholders can and will take. It is clear that the majority of shareholders already take advice from

proxy voting firms and are more concerned with company profits, dividend returns and more strategic risks to company performance. Therefore, while communication between shareholders and companies could be much improved, especially regarding remuneration packages, it is less clear that shareholders' meaningful involvement will increase. In any event, responsibility for governing pay issues should not undermine the responsibilities of remuneration committees and boards. After all, shareholders are just one part of the system – alongside boards and remuneration committees – through which executive pay has been and will continue to be determined, managed and governed.

CHALLENGES OF STEWARDSHIP

The Financial Reporting Council published the UK Stewardship Code in July 2010, with the aim of enhancing the quality of engagement between institutional investors and companies to help improve long-term returns to shareholders and the efficient exercise of governance. The last time any major changes were made to the way in which shareholders oversee executive pay was in 2002. From that point onwards, listed companies were required to publish a separate directors' remuneration report in the annual report and accounts. In addition, shareholders were for the first time given the right to vote on these reports on an advisory (that is, non-binding) basis. Ironically, most commentators believe that executive pay has become excessive over that very period, the past 10 years.

As proposed by BIS, a binding vote on executive pay arrangements should be held at least every three years. Arguably, this should help to improve the dialogue between investors and boards of companies, which is a key policy objective of the Code. Mercer's view is that while this could be helpful, relying on shareholders in this way may be insufficient to address the market failure associated with determining, managing and governing executive pay.

Executive pay is just one, albeit very high-profile, example of an issue that investors are trying to make sense of as they attempt to integrate longer-term environmental, social and corporate governance (ESG) factors into their investment processes, analysis and decision making. Other ESG issues on investors' radars include resource scarcity, changing demographics and climate change. As Mercer analysis shows, less than 10% of the roughly 5,000 investment strategies reviewed exhibit good practice in ESG integration. The integration of ESG factors into investment processes is often described as "responsible investment"; however, perhaps the term "sensible investment" reflects reality better, as it would be hard to argue against the notion that better-informed investors make better investment decisions.

The obvious conclusion is that we are still far from developing a high degree of "stewardship competency" in asset-management firms. While Mercer welcomes a more active role for shareholders in holding companies to account, we believe that the system for executive pay needs to be addressed as a whole. Companies should rethink their executive pay policies, and boards need to be more effective at managing the policies, regardless of shareholders' responsibilities and inclinations towards actively making boards answerable for their decisions.

CHALLENGES OF LINKING PAY AND PERFORMANCE

The challenge of remuneration committees is to retain and incentivise top talent; to create pay packages that align as closely as possible with the performance of the company; to conform to the UK Governance Code; and to keep attuned to the perspectives of executives, employees and shareholders. Should remuneration committees then be more proactive, and promote guiding principles that relate to the pay of their every employee? Perhaps these principles should reflect a response to differences between levels of pay in society – similar to the reporting of sustainability or environmental principles.

When analysed in more detail, the structure and design of pay packages for executives in the UK clearly need to be addressed. Base pay is perhaps subject to a "ratchet up" effect from benchmarking exercises, so the role of executive compensation consultants should also be reviewed.

Mercer's view is that executive compensation consultants should support companies in establishing and managing a stronger link between pay and performance, rather than merely focus on pay comparisons. Performance conditions placed on bonus payments should ensure a closer link with shareholder interests. Long-term incentive schemes, which are excellent vehicles for aligning executive and shareholder perspectives, have become too complicated. Typically, several equity plans are made available to executives with differing performance conditions. While a portfolio approach of performance measures creates opportunity for a balanced approach, it is essential that remuneration committees avoid giving the impression that they are ensuring that some amount of shares will be awarded whatever the company's performance.

The period for which an executive's performance is measured is also under question. Historically, we have seen front-loaded grants when an executive joins a company. Given that the average tenure of a CEO is about five years, the incentive effect is to focus on short-term growth to generate maximum return on their shares, which usually vest after three years. The government is rightly trying to promote simplicity and transparency in executive remuneration. However, views on the role of government intervention in the area of pay are mixed. Labour wanted the government to go further and take in recommendations from the findings of the High Pay Commission report along with annual binding shareholder votes. These recommendations include forcing companies to publish ratios of average pay to that of the top executives and putting employees on remuneration committees. But the real question is to what extent will government interventions promote change?

Companies should feel the responsibility of applying judgement rather than complying with rules alone. Mercer welcomes these moves towards greater transparency of executive remuneration policies and practices, and more explicit links or "golden threads" between remuneration policy for executives and for the workforce as a whole. If there were an active and buoyant market for senior executives, and for CEOs in particular, greater levels of transparency could lead to greater inflationary pressures, rather than the opposite. However, Mercer questions how real the top talent market actually is. Most leading companies invest heavily in the development of their top talent and in succession planning through to the senior executive team. While some senior executives move from one company to another, the reality is that these are exceptions that prove the rule that talent is more typically grown from within.

Mercer's view is that boards should bring together their talent management policies and practices and integrate them with the way they manage remuneration. Remuneration committees are most often focused only on remuneration, as their name implies. We argue that remuneration committees should widen their remit to embrace all aspects of their senior executive team: talent, performance and remuneration. This will address claims of an external market for top talent and will ensure that the CEO is working with executive colleagues who could take on the chief executive role if required.

REBUILDING AN EFFECTIVE SYSTEM FOR GOVERNING AND MANAGING EXECUTIVE REWARDS

The broad conclusion is that current executive remuneration is the result of a market failure in which:

- Shareholders do not hold companies to account
- Boards do not govern executive remuneration effectively (perhaps because they are not as well supported by executive remuneration consultants as they should be)
- Executives can stretch and breach the boundaries of their companies' remuneration policies

To tackle this systemic market failure, we propose three ways of rebuilding an effective system for governing and managing executive remuneration.

1. COMPANY REMUNERATION POLICIES

Company remuneration reports should be simplified, show a stronger link between pay and performance, and be more transparent in terms of a company's overall pay philosophy.

More consultation with shareholders is needed to ensure that performance measures align with their interests and that the shareholders understand the packages they will be required to vote on. Companies also need to move away from old ways of measuring performance over a typical three-year period towards a new concept of incentive structure that focuses on the much-longer-term interests of a company – career shares (restricted shares that are held at least until termination of employment with the company) are an example.

However, in a competitive market, companies that change remuneration packages to provide lower payout in the short term could be at a first-mover disadvantage, as the self-interest of many executives encourages them to move on and obtain the most short-term competitive package.

Executive compensation consulting firms have also been part of the problem: too focused on market comparisons, too timid about challenging their clients and too willing to create complexity when simplicity would have helped (and been easier). They can make amends by bringing focus back to what is right for the company; shifting emphasis to the executive talent pipeline and away from an executive labour market; moving beyond just the level of pay to an empirical performance focus; and building systemic executive management capability.

2. INSTITUTIONAL INVESTORS' EFFECTIVENESS

The binding vote will force companies to keep an eye on communication, which is a good thing, but the substance of remuneration policies will still be driven by business requirements. It is imperative that investors, as owners of companies, perform oversight in a thoughtful and diligent way. Higher standards of stewardship practices by asset managers are consistent with the long-term interest of funds. Shareholding institutions should lobby regulators to address the bias towards "quarterly capitalism" – in this respect, the Kay Review could be helpful – but also show leadership themselves by exhibiting good practice in adopting higher standards of stewardship and demanding the same of their agents (that is, asset managers and advisers).

3. REMUNERATION COMMITTEES' EFFECTIVENESS

Remuneration committees need to become more proactive in addressing pay issues within their companies and in considering the wider aspect of pay differences in the context of their company's position on societal issues. They should communicate pay philosophy clearly in remuneration reports and in the strength of the link between pay and performance.

Of additional importance is that, in adopting the government's call for more transparency, remuneration committee chairs ensure that the remuneration report clearly explains any instances of executive pay increasing at a rate higher than that of the average employee. And remuneration committees, perhaps with a change of name, need to take on a broader responsibility for managing talent, performance and remuneration of their senior executives. The remuneration policy should be widened to encompass how the broader remit will be managed.

The chair of a remuneration committee plays a pivotal role and needs to take a lead in addressing these issues. It is reasonable to demand more justification for their decisions and better communication with shareholders to ensure the performance metrics placed on incentive components of pay are aligned with shareholder interests.

Finally, the company board should exercise active oversight and challenge the work of the remuneration committee.

CONCLUSION

Government intervention and public discontent can go only so far in solving the executive pay problem. Ultimately, it is the role of the board to require the remuneration committee to instigate changes to how executive pay is determined, managed and governed – delegating this to shareholders just will not do.

Mercer believes that fair pay is a desirable and feasible goal. However, there could be a new unfairness in the fair pay debate. Government intervention to date has focused only on listed companies, which represent a small proportion of all organisations that employ highly paid people. Partnerships, private companies, UK divisions of multinationals, private equity and hedge funds are not covered by the government's proposals, and they represent a large proportion of the senior executive labour market. Will changes among listed companies set new standards for all employers? Mercer doubts this will happen. The emerging risk is that government intervention will create a fractured, two-tier market in which many talented executives will opt out of the scrutiny applied to the listed company.

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2013 COMPENSATION AND BENEFIT TRENDS IN EUROPE

NAVIGATING THROUGH THE CURRENT ECONOMIC CLIMATE

The ongoing financial downturn and uncertainty about how the global economy will fare in 2013 have had a significant impact on salary and benefit trends across the Europe, Middle East and Africa (EMEA) region. In October 2012, the International Monetary Fund revised its forecast for global growth downward, projecting it to be 3.3% for 2012. Sluggish growth of 3.6% is projected for 2013, and the combined pressures of slower expansion in emerging markets, a fall in the volume of world trade, slashed public spending and the impending "fiscal cliff" in the US are increasing risks worldwide.

The general level of uncertainty in the world economy has made it hard for managers to know how to allocate salary budgets. This is certainly borne out if we look at organisational hiring intentions across the European region. Caution is very much the watchword: 25% of organisations intend to recruit in 2013 (compared with 27% in 2012). Fewer organisations intend to reduce their headcount in the coming year (10%, compared with 15% in 2012), but the vast majority plan to maintain the status quo (65% compared with 58% in 2012).[1]

COST CONTAINMENT

To meet these challenging economic circumstances, cost containment is still very prevalent. Cost cuts have been implemented across all functions but commonly manifest in the termination of temporary contracts, recruitment freezes (or at least limits on new hires), decreased working hours and reductions in use of outside services. Training opportunities also tend to be reduced, as do the number of talent- and development-related projects. E-learning training modules are gaining in popularity, just as expensive, classroom-based learning is on the wane.

These cost-cutting measures do, however, have a knock-on effect, namely that staff engagement is at an all-time low. When training is provided, it is important for employers to emphasise upskilling

[1] International Monetary Fund. "IMF Sees Heightened Risks Sapping Slower Global Recovery" (9 October 2012), available at http://www.imf.org/external/pubs/ft/survey/so/2012/res100812a.htm.

opportunities, so that people feel as if they are being provided with somewhere to go in their career: being perceived as "employable" is now valued more highly than safety and security.

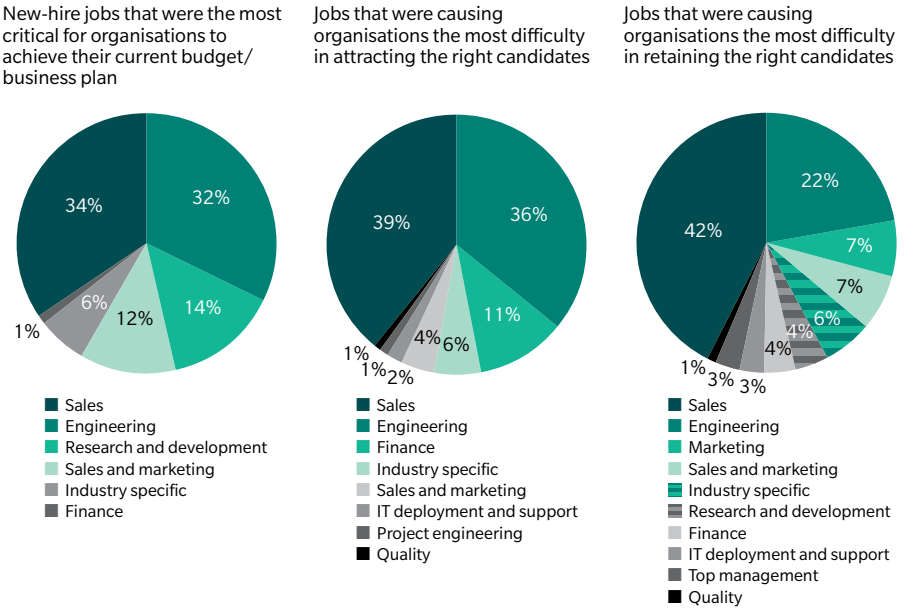
'HOT' JOBS

Across Europe, the picture is strikingly similar regarding the top four "hot" jobs:

1. Sales
2. Engineering
3. Research and development (R&D)
4. Finance

Figure 1

Critical Skills, Difficult to Attract and Retain



Source: Mercer Total Remuneration Survey (TRS) 2012 data

Professionals in sales and finance (which account for many key business functions) are always in demand in the job market. However, research conducted recently for The Conference Board[2] found that CEOs currently value innovation the most as they look to the future, hence the high ranking of R&D in the "hot" jobs league.

Sales jobs constituted 34% of the critical new hires required by organisations to achieve their current year budget or business plan; engineering jobs came a close second, with 32%, and R&D was third, with 14%.

[2] For more information, see *The Conference Board CEO Challenge® 2012: Risky Business – Focusing on Innovation and Talent in a Volatile World* (March 2012), available at http://www.conference-board.org.

Despite unemployment levels remaining high, some organisations were having difficulty recruiting candidates with the right skills and expertise in some functions. In effect, demand is up, but supply is low.

High-calibre sales people were proving particularly elusive (39%), followed by engineers (36%) and finance specialists (11%). Retaining good staff is also essential for company stability and growth, but organisations were struggling to keep their sales staff (42%) and engineers (22%) in particular. Hanging on to the latter will prove to be a problem over the coming years, as the numbers of graduate engineers is falling consistently across Europe.

CURRENT PAY TRENDS AND DEVELOPMENT IN EUROPE

SALARY FREEZES

The impact of salary freezes on European companies is now significant, and they affect all segments of the workforce. As companies are now becoming accustomed to implementing salary freezes, it is likely that freezes will be here to stay even if the global economy improves.

Western European companies in particular have been focusing strongly on cost and expense management during the downturn, and 12% of them have frozen their employees' salaries in recent years. The trend has affected 18% of managers and 30% of all CEOs in those companies. Salary freezes have been used to a slightly smaller extent in Central and Eastern Europe, where 9% of companies have resorted to them. Up to 12% of executives and 4% of blue-collar workers have been affected by them (in a reversal of the 2009 position).

SALARY INCREASES

Several countries from the EMEA region have seen their salary increases remain static for two years (2011–2012), and this trend is forecast to continue in 2013 – examples include Ireland (2%), Italy (3%), Poland (4%) and the UK (3%).

Western Europe

Among executives in Western Europe, a recent Mercer survey has revealed typical salary increases of 2%–3% broadly speaking, but considerable differences become apparent when the data are interrogated more fully.

Indeed, Germany and Scandinavia are relatively stable and have seen solid and steady salary rises. The UK is also improving after having experienced difficult times up to the first quarter of 2012. In Ireland, Italy and Portugal, however, salary increases are, overall, below inflation.

Figure 2a

Pulse Survey Results – Western Europe

Para-Professional "White Collar"

Source: Mercer EMEA Salary Movement Snapshot survey 2011; 2012 data, Eurostat

Figure 2b

Pulse Survey Results – Western Europe

Para-Professional "Blue Collar"

Source: Mercer EMEA Salary Movement Snapshot survey 2011; 2012 data, Eurostat

Across the board, the region has seen a greater use of salary freezes once more. While there is a slightly increased level of salary divergence between different employee categories in Western Europe, the main message remains that conservatism still rules.

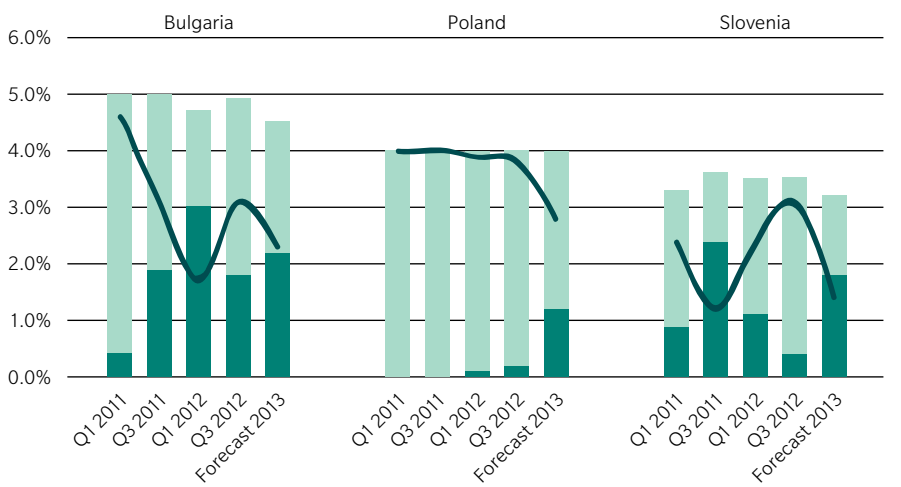
Central and Eastern Europe

Executives in this region have been receiving slightly higher salary increases than their Western European counterparts. Bulgaria, the country with the lowest salaries in Europe, has seen headline increases of between 4.5% and 5%. Poland has remained stable with increases of 4%, while Slovenia has seen much more of a rollercoaster pattern, which illustrates the overall theme of there being a larger discrepancy in salaries between countries in this region than in Western Europe. The Baltic countries (Latvia, Lithuania and Estonia) have made a swift recovery from the ongoing financial downturn.

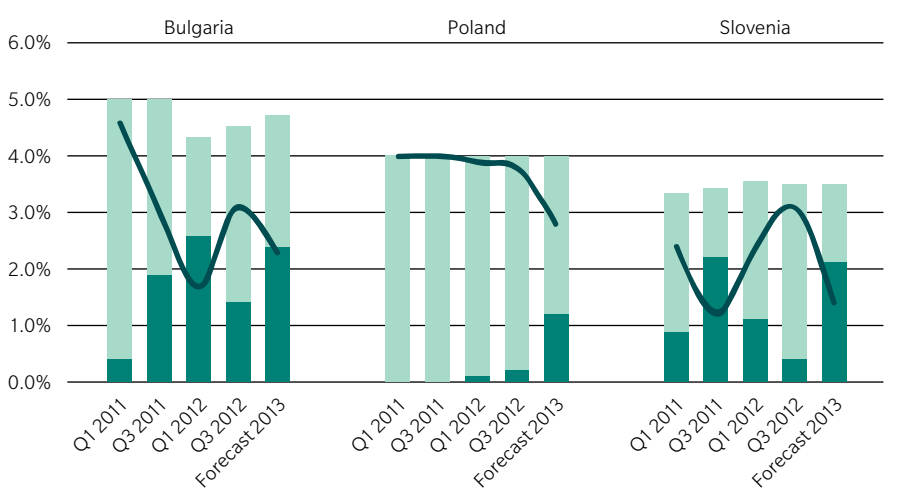
Figure 3

Pulse Survey Results – Central and Eastern Europe

Para-Professional "White Collar"



Para-Professional "Blue Collar"



Source: Mercer EMEA Salary Movement Snapshot survey 2011; 2012 data, Eurostat

Again, salary freezes are prevalent in Central and Eastern Europe, but they are used less frequently than in the West. Some roles in this region are faring better than others salary-wise; however, non-sales professionals (for example, those in finance positions) are receiving slightly higher salary increases than their colleagues in sales.

Industry-Specific Results

In Western Europe, 2012 salary increases are, on average, higher among companies in the durable and non-durable sectors (excluding consumer goods) and in "other sector" industries, such as pulp, paper and packaging. In 2013, a salary rise of 4% for workers in this region's energy sector (including oil, gas and renewable energy) is expected. These trends are mirrored in Central and Eastern Europe, where 2012 salary increases are typically higher among companies in the durable, energy and consumer goods sectors as well as "other sector" industries.

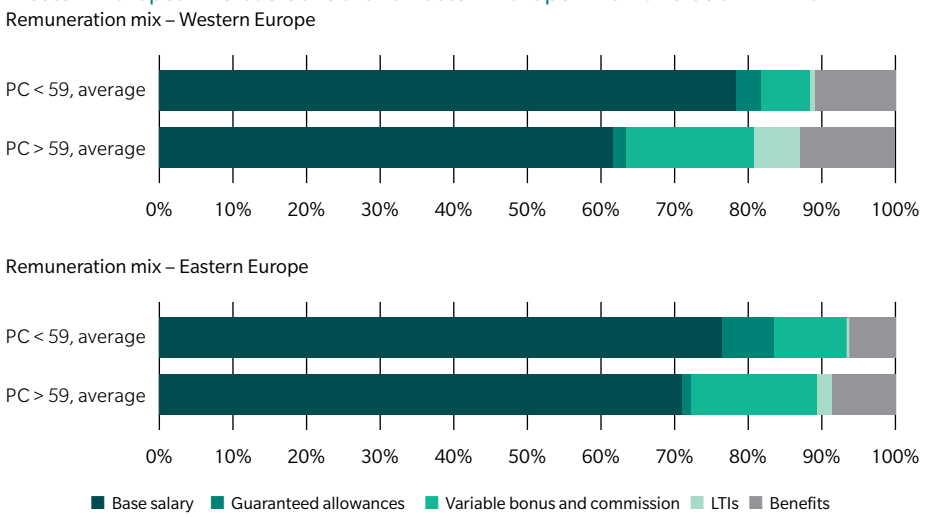
Looking ahead, salary increases are budgeted to be lower (around the 1.5% mark) in the finance and banking sector in Western Europe, in a reversal of 2011 trends. In Eastern Europe, lower salary increases are expected in the services and retail/warehouse trade sector.

INCENTIVES AND BENEFITS

Comparing the remuneration mix between the two regions (Western and Central/Eastern Europe), base pay is still the largest component for more than 70% of all employees surveyed. Benefits play the biggest role for executive positions in Western Europe and are least significant for non-executives in Eastern Europe. Variable bonuses and commission are roughly the same for executives in both regions. Long-term incentives (LTIs) appear to be negligible for all non-executive positions but are most prevalent among the executive population in Western Europe.

Figure 4

Western European Versus Central and Eastern Europe – Remuneration Mix 2012



PC = Position Class

Source: TRS 2012 data

Overall, payout levels in Europe have been stable across 2011 and 2012. This is certainly the case for target bonuses (as a percentage of annual base salary), an area in which executives and professional non-sales people have seen an increase in some cases. Increases have also been afforded to management. When target bonuses for these three groups are compared with maximum bonuses (as a percentage of annual base salary), it is evident that pay increases are based on performance, rather than an employee's length of service in a particular role.

While there may be a change to the vehicles used in incentive schemes – a change of focus from stock options to cash payments, for example – the use of LTIs has seen a year-on-year increase. The perceived value of LTI plans is linked to employees' expectations of staying with their current employer, and the plans are effective only if engagement levels are high – a good incentive plan is very unlikely to stop employees from leaving if they are unhappy.

COMPENSATION AND BENEFIT TRENDS

SHORT- AND LONG-TERM INCENTIVE SCHEMES

In terms of an annual short-term incentive (STI), target opportunities have increased slightly. The maximum STI opportunity has been increased across each region, as has total cash compensation. On average, for this region actual payouts were similar for STIs in 2011 and 2012, again signalling an atmosphere of caution. Performance metrics are starting to be reviewed, however, and "soft" parameters are being de-emphasised.

LTI plans are prevalent across the region, and six of the 10 countries profiled (namely Belgium, France, Italy, the Netherlands, Poland and the UK) have increased their use of them between 2011 and 2012. They are most popular in Ireland, where 70% of companies offer LTIs, while more than 60% of companies make use of them in the UK and the Netherlands. In general, employee retention and long-term sustainable performance are still the most commonly cited reasons for LTI use among companies.

Across the European region, LTI plan eligibility increased slightly from 2010–2011 and from 2011–2012. As with STI performance metrics, financial parameters are increasingly an area of focus.

Shares are another growing component of LTI provision, and companies continue to move away from stock options. A "portfolio approach" is becoming more popular for LTI plans, and different vehicles are being used for different segments of the workforce, as appropriate.

BENEFITS

Across the whole European region, interest in corporate governance has increased and companies have shifted towards centralised decision making regarding benefits: in short, top management teams at corporate headquarters – rather than individual strategic business units – are now making the final decisions. (This is a reversal of the trend seen before the 2008 downturn.)

The move from defined benefit to defined contribution plans continues, and organisations are showing greater interest in flexible benefits, particularly in the Netherlands and Poland. Company cars are being scrutinised ever more closely from a cost and expense perspective. For example, smaller cars are being provided, vehicles are being replaced less often and so on. Tax implications are key, and in some countries within Europe (such as the UK), the company car is much less of a desirable benefit than it was in years gone by.

FORECAST TRENDS FOR 2013

A recent Mercer Salary Movement Snapshot survey (September 2012) has revealed a mixed picture across the EMEA region regarding salary forecasts for 2013.

In Western Europe, countries such as Austria, Germany, Norway and the UK are forecasting salary increases of 3%. (In the UK, this will mean above-inflation salary rises for the first time in several years.) Unsurprisingly, the peripheral markets – especially those around the Mediterranean – are more troubled. Greece, Portugal and Ireland are expecting increases of between 2% and 2.4%. As we can see, the eurozone crisis is still weighing heavily on the economies of the European Union.

Forecasts for 2013 have remained reasonably positive at the time of this writing and are ahead of 2012 actual increases. Salary freezes are on the increase again, however, and are predicted to be slightly more prevalent at the executive level in 2013.

The forecasts for Central and Eastern Europe show much greater variance, as Belarus predicts salary increases of 11.3% and Cyprus only 2.9%. Salary freezes are again on the upswing but to a lesser extent than in Western Europe in general.

Overall, forecasts for this region are more conservative than for Western Europe and are typically at or below the 2012 forecast level.

In terms of industry differentials, both regions are predicting lower salary increases for the banking and finance sector. The energy and insurance sectors are forecasting higher salary increases across both regions, and in Central Europe specifically, the highest increases are expected in the consumer goods industry.

CONCLUSION

Employers looking at compensation and benefit trends should consider the following:

- Segmentation is vital for effective compensation and benefit plans.
- Manage risk and cost, but bear in mind that some cost-cutting measures can result in a lack of staff engagement. Engaging employees successfully will lead to greater retention.
- Embrace total rewards and make sure that limited budgets are directed in the right way.
- The talent war continues: demand is high but supply remains weak; this misalignment of skills in the jobs market will have an impact on the economy.

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COMPENSATION AND BENEFITS PRACTICES IN AFRICA

In an effort to examine current compensation and benefits practices in sub-Saharan Africa, Global Remuneration Solutions, in partnership with Mercer, conducts approximately 26 remuneration and total cash surveys. While the surveys do not garner as many participants in this region as they do in other parts of the world, the findings offer a significant snapshot of current trends among preferred local employers and multinationals.

The number of participating organisations varies between five in Madagascar and nearly 120 in South Africa. The breakdown by industry sector also varies from country to country: in Ghana and the Democratic Republic of Congo, the mining sector is more heavily represented, in Nigeria energy, in South Africa financial services and so on. In 2012, the surveys included new questions related to employment benefits; these questions received varying responses from participating companies.

Among our first broad observations is that some of the most relevant and popular benefits in Africa, such as medical care, may not be as highly rated across the rest of the world. In addition, benefits such as private pension plans may be designed to appeal more to the American or European expatriate mindset but may not be relevant to employee satisfaction on the African continent. If employees have to contribute to their own pensions, they often believe that the money is coming out of their pockets and that they would have preferred to use it in different ways – for instance, to further their children's education.

COST OF LIVING: COUNTRY RANKINGS IMPOSSIBLE

From a cost-of-living perspective, it is very difficult to compare the countries of sub-Saharan Africa. Each country presents a very different – and constantly changing – picture, not just in terms of quality of life, but also regarding peace and stability, infrastructure investments and labour markets. The only comparable data we have available are from Mercer's annual cost-of-living survey.[1]

[1] For more information about Mercer's Mercer Cost of Living Survey 2012, visit www.imercer.com/col.

Based on the international basket of goods, and using New York as the comparison base, Luanda (the capital of Angola) is 46% more expensive in terms of the cost of living. In fact, it is often cited as the most expensive city in the world, even excluding additional factors such as education and accommodation. If we consider the main cities of Nigeria, Ghana and Mozambique roughly equal to New York in terms of cost of living, then we can see that 15 other capital cities in Africa are more expensive, while 14 are cheaper (Addis Abeba is the cheapest) – a far more mixed picture than one might expect.

In terms of quality of life, if we take Nairobi as the comparison base and give it a score of 100, Luanda scores 85, so the quality of life is worse there. The calculation of quality-of-life differentials is particularly shocking. If New York City is the comparison base at 0, all of the African countries score well below that, ranging from -12 (Port Louis, Mauritius) to -65 (Pointe-Noire, Congo). The hardship in these locations makes it very difficult to attract expatriate talent to these areas, no matter how much they are paid.

BENEFIT TRENDS

MEDICAL CARE

Across sub-Saharan Africa, more than 80% of companies provide some form of medical care to employees, usually via a preferred third-party provider. All medical insurance or care provided is from private companies in this part of the world, as there is very little social security covering it (Botswana has some limited availability).

While not a general requirement, most companies also provide medical care for spouses and dependents. The trend is to limit full coverage to a spouse and four children, or four to five people regardless of who is included. This is a clear improvement in strategy, as it addresses the needs of the local population, instead of replicating the same benefits strategy worldwide. Family structures and the definition of dependents are not identical across the world. In Congo, for instance, medical care is often used for elderly parents, while in other parts of Africa, more than one spouse may be included. However, for cost-containment purposes, companies are unable to provide medical coverage to the entire extended family.

RETIREMENT

Despite the fact that most countries in the region have some sort of social security system for pensions, based on joint contribution by employer and employee, the only country in which this is fully functional

appears to be Mozambique. Therefore, in most cases, companies need to provide additional private pensions. Across the continent, total pension contributions average 12% of basic pay and mostly take the form of defined contribution retirement plans. Very few defined benefit or final salary pension schemes are available today, and in many of these countries (such as Congo), no retirement savings plan is available during an employee's working career.

Average employee contributions vary between 2% (in Congo and Angola) to 9% (in Sierra Leone), while employer contributions are just under 8% on average. However, workers in Ghana, for example, have three tiers of retirement options, with the largest contribution currently standing at about 30%. The retirement age is typically around 60, although Malawi will increase it to 70 shortly, and Sierra Leone has already done so.

COMPANY CARS AND CAR ALLOWANCE

The provision of a company car is a sought-after and widespread benefit in Africa, with more than 30% of companies offering it to at least their senior management levels. In Burundi, the figure is up to as much as 80%. However, it is an expensive option, as managers' preferences tend to run towards high-range (and high-consumption) cars, such as Land Rovers. In a landlocked country such as Malawi, a car can end up costing much more than its actual value – even as much as 80% of the annual basic salary of top executives – as it has to be imported (and consequently taxed) through three borders.

Some companies, particularly in South Africa, are now turning towards car allowances, rather than an actual car provision, in an effort to save money. The average annual estimate for a car allowance is around US$10,000.

FRINGE BENEFITS

These comprise an almost endless list of traditional benefits that are not necessarily reflected on payslips. They may include items such as dependents' education, power generators, housing security, social-club membership fees, subsidised lunches, home internet connection, mobile phones, transportation or company goods in kind (beer allowance from breweries, etc.).

Some fringe benefits are more unusual – for example, a turkey at Christmas in Nigeria or a Christmas hamper in Ghana. In Portuguese-speaking African countries such as Angola or Mozambique, one fringe benefit may include annual flights to the "mother country", Portugal, even when the employee has no family or cultural links to that country.

All of these benefits can add up to quite a significant proportion of the total remuneration package – as much as 15%–20%. However, because they frequently do not appear on the payslips, it is relatively easy to lose sight of them.

REMUNERATION STRATEGIES

Aside from benefits, remuneration packages generally follow the pattern of base pay (including guaranteed additional monthly payments) plus nonguaranteed variable bonus payments. Performance-based bonuses are prevalent in the region. More than half (60%) of companies offer performance-related bonuses, which is quite high compared with the rest of the world. These typically average around 15% of basic annual salary, although Senegal pays out as much as an average of 35%. However, for senior managers the payout can be much higher – Cameroon is perhaps the most extreme example of that, with some isolated bonus payments in the region of 300% of annual salary.

The guaranteed annual income is supplemented in the form of a 13th cheque, which is common practice across most of Africa. In Congo, historical practice dictates as many as 16 guaranteed monthly cheques, with extra ones coming in on an employee's birthday month, the month he or she joined the company, 1 June and 1 December.

Additionally, remuneration packages also include a roster of cash allowances, which are often very important both financially and emotionally to employees. Some of these are tax-exempt, such as housing or transport allowances in Congo and housing or uniform allowances in Nigeria. This is another instance where global companies need to be culturally sensitive. Despite the fact that these allowances can become a huge administrative burden, companies need to think carefully before scrapping them or consolidating them into one single higher payment. Local employees want to see their allowances and not just have a higher salary – for example, when petrol prices go up, they expect their transport allowance to follow suit.

For some of these countries, a comparison of total remuneration was not possible, so the survey looked at total cash payouts for each Position Class (PC)[2] instead. For clerical and blue-collar staff across the 32 countries (PC 42–44), the midpoint value is under US$10,000, with Ethiopia at the lower extreme and Gabon and South Africa at the higher end. For PC 46-49 (professional entry level), Equatorial Guinea offers the highest payout and Ethiopia the lowest. Meanwhile, at the senior levels in organisations (PC 60–64), in the smaller countries the incumbents will be mostly expats, so the midpoint values are very high.

[2] In Mercer's International Position Evaluation (IPE) system, different job levels are assigned their own Position Class by evaluating the relative contributions of jobs and then ranking them within an organisation.

In Africa, there appears to be less of a correlation between GDP, the Consumer Price Index and annual salary increases. Typically, we are seeing annual salary increases of between 5% and 15%; however, there are occasional spikes, such as those we saw in Rwanda and Zimbabwe in 2011 (more than 20%).

In the 25 or so countries where we have data regarding total compensation packages, we have observed a mix of 50%–60% base salary, while fringe benefits make up around 20% on average. Other guaranteed cash payments may add up to 15%–20%. There is, however, a vast disparity between what senior managers and lower-level workers earn, with the positions PC 60+ earning up to 50 times more than the lowest-paid workers. At a time when Western countries are talking about capping executive pay to no higher than 20 times the salary of the lowest-paid worker, this is one aspect of the surveys that warrants closer attention.

CONCLUSION

In Africa, very few local employees can pick and choose the type of work they do or even their employer, so employee turnover is much lower here than elsewhere in the world. However, organisations should not rely on that alone and should also look to build employee engagement on a long-term basis.

One way to achieve that may be to find out what types of benefits employees truly value and redesign remuneration strategies accordingly. In many cases, this may involve a combination of short-, mid- and long-term benefits for the whole employee lifecycle, without necessarily spending more cash on them.

Another way to achieve this is through capacity building, investing in training and development of both current workers and the future generations. This will lead not only to improved skills and higher productivity, but also to more engaged and loyal employees.

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MAINTAINING ATTRACTIVE BENEFITS PACKAGES IN A COMPETITIVE ENVIRONMENT

Benefits packages have an expiry date, just like most other products and services. We need to continually assess whether they are fit for purpose in terms of attracting and retaining talent. The litmus test is their impact on engagement and productivity, which can be enhanced by addressing both the employee's needs and the organisation's needs. Hence, benefits packages work best when they are aligned to the company's strategic goals and objectives with regard to talent management.

Research suggests that a greater level of flexibility in benefits packages creates higher employee engagement. The flexibility of the benefits design has to take into account changing lifestyles, the multigenerational workforce, various health needs and demographic diversity.

A VUCA WORLD

We are living in a world that is increasingly volatile, uncertain, complex and ambiguous (VUCA), and the same old benefits won't help us navigate this challenging and sometimes exciting universe. The big prize, of course, is being able to work and being able to love, according to Sigmund Freud – or achieving a good work/life balance, as we are calling it in the 21st century.

At least in the Western hemisphere, we are faced with lower birth rates and an increasing life expectancy, which puts pressure on public finances and has led to an increase in or abandonment of the default retirement age in many countries. An ageing workforce is facing a number of health epidemics – cardiovascular disease, diabetes, cancer and Alzheimer's, for example. And if these weren't enough, we find that stress and depression are also on the rise in the working-age population. That's the bad news. The good news is that lifestyle choices can play a major role in health and disease, which makes us, to a certain extent, the masters of our destiny. For instance, cardiovascular disease is related to high cholesterol, elevated blood pressure, lack of exercise, being overweight and eating an unhealthy diet. These are, in part, modifiable risk factors. And we will be even more successful in adopting healthier behaviours if we are supported by our environment – for example, our workplace.

Systematic interventions based on a meaningful health and wellness strategy can positively affect the epidemiology of many chronic diseases, and that's good for the individual employee and the organisation alike, as expressed in productivity gains.

The ageing demographic of the Western workforce doesn't allow for complacency, and most organisations find it hard to attract the right talent, especially given today's economic constraints – hence, it has become imperative to maintain a healthy and engaged workforce.

There are many global imperatives for investment in health management. Topping the list are increasing health care costs, an ageing workforce with associated increasing health risks, the war for talent in emerging markets, and employee engagement and productivity in all geographies. Managing health risk is important from both cost management and human capital management perspectives. The transformational message to all those concerned with corporate health care is to move from focusing on reactive methods of disease identification and claims reviews to promoting ways to live and work with energy and vitality.

THE EVOLVING HEALTH AND BENEFITS LANDSCAPE

We are seeing an increase in chronic diseases, such as diabetes and cardiovascular disease. As a consequence, health care costs in Europe and the Middle East keep rising, as they do globally, reaching rates that are almost double the general rate of inflation. While European businesses have traditionally been protected from the full weight of medical inflation, this is no longer entirely true because the sovereign debt crisis is accelerating the shift from state funding to private funding. Public funding is further compounded by the low birth rate across Europe.

Some of the most common health problems, such as back pain, elevated cholesterol and high blood pressure, are relatively inexpensive to treat, but if we do nothing, these problems will progress to the next level and be much more costly – economically and personally. An assessment of the full cost of health and disease is vital for creating a sound business case when prioritising an organisation's health and well-being programme.

Driven by increasingly complex lifestyles, such as transitional families, delayed birth of children, dual care responsibilities for the young and elderly, higher geographical mobility, health status and other diversity factors, employees are seeking compensation packages that include a broader choice of benefits to suit their individual circumstances. Responsive employers are testing innovative models with more evidence-based benefits design. Motivating factors include attraction and retention of talent, maintaining or increasing productivity, and facilitating a swift return to work of absent employees.

BUSINESS RISK

Most organisations incur very high costs for the treatment of employees suffering from ill health, which tends to be a proportion of 5%–25% of the workforce, but they don't invest enough or invest nothing at all in the health of the remaining 75%–95% of employees. The main reason is that these employers don't know anything about this population's health needs, and hence they don't manage the very significant business risk associated with it.

Investing in well-being makes business sense. While sickness incurs high treatment costs, maintaining wellness is usually much more cost-effective. An investment strategy of maintaining good health avoids the otherwise "natural" progression of a significant proportion of the employee population from the low-health-risk to the medium- and high-risk groups and, ultimately, to the proportion of ill employees who incur high treatment costs and show reduced productivity through absenteeism and presenteeism.

Plenty of evidence shows that employee engagement correlates directly with higher customer satisfaction, productivity and profitability. Also, the drivers of engagement have been studied carefully over the past years; they include opportunities to learn new skills, motivational leadership, fair pay, consistency, input into decision making, collaboration with colleagues, and senior management acting to ensure the organisation's long-term success and taking an interest in employee well-being.

The latter two drivers are currently moving to the forefront of researchers' inquiries – the first because the credit crunch has shown that "short termism" in business can have catastrophic consequences and the second because it is becoming increasingly clearer that business sustainability and engagement depend on healthy individuals.

The recognition of health and well-being as a necessary investment in business success should change our thinking and planning around risk management. Although all of us recognise that financial, environmental and infrastructure risks are high on the agenda, we are slowly appreciating that operational risk is not just about processes and systems but, first and foremost, about people. And people will achieve high levels of productivity only when they are healthy.

ENGAGEMENT THROUGH CHOICE – EMPLOYEES' LIFECYCLE NEEDS

Employee needs change as they progress through their lifecycle. While, for instance, workers in their 40s and 50s are very concerned about their retirement packages, younger employees entering the workforce tend to be "switched on" by cash allowances, cars and career training. A decade or so later, when they start a family, their needs will have changed again and they will worry about buying a family home, securing childcare and finding work/life balance.

On closer inspection, the true picture gets even more complex in the 21st century. For instance, young employees who are fortunate enough to work in high-salaried jobs with excess income *are* looking for investment opportunities – even pensions. On the other hand, middle-age employees may have just entered their second marriage and have young children again. The number of single households is increasing, and so forth.

It becomes very obvious that we need a tailored solution in terms of benefits provision to really engage employees and achieve the goal we set out to achieve – namely, to increase productivity by addressing the real needs of employees and the organisations they work for. Otherwise, benefits lose their value to the business.

The results of Mercer's *Inside Employees' Minds Survey*[1] clearly show that employees value choice in benefits and are even keen to participate in salary sacrifice schemes, as long as these schemes help to meet employees' lifecycle needs and their very personal circumstances.

Employers feel the pressure to adapt their benefits strategy and are offering more and more flexible platforms. Although concern remains that the administration of such a scheme would be onerous, once it is adopted, most employers change their minds and report high levels of satisfaction with the programme.[2] When asked if they intend to curtail their choice strategy given the economic climate, 62% said they didn't want to change their flex strategy and another 13% replied that they even wanted to accelerate their plans to add a greater degree of choice.

[1] More findings of this *What's Working*™ research, conducted in 17 key markets around the globe in 2010 and 2011, are available at http://inside-employees-mind.mercer.com/home.

[2] Source: Mercer's EMEA-wide *Employee Choice in Benefits Survey*, 2011, available at http://www.mercer.com/articles/European-employee-choice-benefits-survey.

BENEFITS VALUE

As mentioned throughout this article, a sustainable benefits programme will meet a sufficient number of both employee and organisational needs. If it doesn't address both sets of needs, it will lose momentum and engagement. It is hard to measure the increased level of engagement and productivity as a consequence of the availability of various benefits packages, but it is easier to assess the impact of specific services offered and taken up as part of the package. For instance, a high-performance culture – and who doesn't work in an environment where targets become more stretched every year! – is based on engaged employees who have access to appropriate health care at the appropriate time so that they don't become unnecessarily distracted by unmanaged health issues. That means that the availability of good health care and an organisational culture that fosters resilience and fitness do indeed translate into productivity gains.

The design of powerful benefits packages has become a diversity issue. If planned carefully, the programme may become a tool for attraction, retention and productivity. Relevant variables to be measured are productivity, staff turnover, absenteeism, presenteeism, compliance costs, business continuity and engagement, to name the most important ones. The bigger prize at the end is a sustainable workforce and a more caring response to the needs of an increasingly diverse employee population.

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USING A GLOBAL JOB CATALOGUE AS A PLATFORM FOR ENHANCING HR VALUE AT ASTRAZENECA

This case study has been developed from a Mercer webcast, *Using a Global Job Catalogue as a Platform for Enhancing HR Value*, presented on 3 May 2012 by Mark McGowan, Principal, Human Capital at Mercer; Simon Appleby, Vice President, Global Head of People Practices at AstraZeneca; and Alison Cowdall, Global Projects Director at AstraZeneca.

BUSINESS DRIVERS FOR THE ADOPTION OF A GLOBAL HR SOLUTION

As a worldwide leader in the pharmaceutical sector, AstraZeneca must continually adapt to emerging industry-wide business changes that carry implications for the organisation's business strategy, an important pillar of which is driving operational efficiency and developing a more flexible cost base. Realising that achievement of the firm's strategic goals would rely on attaining greater effectiveness and increased efficiency in the delivery of core people processes, AstraZeneca's global People Practices HR Team launched AZEngage, a global business-enablement programme, designed to drive strategy through HR transformation.

Early in the AZEngage journey, the People Practices HR Team recognised the importance of having consistent data across the entire organisation as a gateway to delivering common and consistent people programmes, but no comprehensive system was in place. The team identified a Global Job Catalogue solution, supported by global job banding, as the foundation that would enable HR transformation and allow the organisation to deliver a more efficient and integrated HR system.

ABOUT ASTRAZENECA

- A FTSE top 20 company with a global turnover of US$33.6 billion
- Primarily involved with the discovery, development and marketing of prescription medicines for six major health care areas
- Employs around 57,000 people in more than 100 countries – with approximately 46% of employees based in Europe, 31% in the Americas and 23% in Asia Pacific
- Operates in a rapidly changing commercial environment – governmental pricing pressure, increased regulatory intervention and mounting patent losses across the industry place intense pressure on both margins and the established business model

DEVELOPING A GLOBAL JOB CATALOGUE

Prior to the Global Job Catalogue, AstraZeneca's global People Practices HR Team had no easy way of understanding the organisational structure that had developed over the years. In examining local job titles and descriptors across a range of countries, the team discovered that more than 14,000 job descriptions existed – all documented and described in different ways.

This level of variation presented challenges from a number of perspectives. For managers and HR, the lack of consistency in job titles and descriptions hindered both visibility into the organisation and the ability to make effective people-management decisions, especially for those managers with multi-country teams. In addition, the team found significant duplication of effort, as parties within both HR and management adopted their own standards to meet their specific needs and were required to maintain their own records locally.

THE IMPLEMENTATION APPROACH

It was clear that designing and delivering the Global Job Catalogue would present major challenges from project- and change-management perspectives and that the People Practices HR Team would need to adapt its normal approach to delivering HR change.

At the start of the initiative, the team had 12 weeks to design the underlying programme architecture and to create a core of 300 job profiles, which would be entered on the HR IT system as a basis for the global implementation.

The firm established a small core Global Project Team, which was supported internally by reward team leaders and HR business partners – individuals assigned to liaise with business leaders in each AstraZeneca market. The HR business leader was tasked with providing a technical understanding of each job area and supporting what was a significant change-management process. This team partnered externally with Mercer to receive support and advice on the design and delivery of the catalogue content and external validation for the structure.

Due to the challenging initial timescales, rather than adopting a traditional approach to engagement, which would have involved a high degree of collaboration and significant organisational involvement, AstraZeneca's Global Project Team took a more direct approach. Critical to the success of this streamlined approach was working closely with HR business partners to identify a small group of influential business stakeholders who would take part in the process, providing validation of the design prior to formal business communication.

Implementation was managed in a controlled manner, with the process rolled out in seven country waves, so that by the time AstraZeneca came to deal with its largest markets, the approach had been thoroughly tested and proved.

The design process was completed in four stages:

1. The team defined a Global Job Catalogue framework, including job families and new global bands.

2. The team developed role profiles and identified core accountabilities through consultation with AstraZeneca's HR business partners.

3. Business validation was completed, fine-tuning job profiles with a targeted group of key business stakeholders, allowing sign-off on each job family area.

4. Grading decisions were checked via centralised evaluation using Mercer's International Position Evaluation – Mercer's job evaluation methodology – to ensure that job grading outcomes were consistent, fair and robust.

PROCESS OUTCOMES

Since launching the project in 2010, AstraZeneca has managed to streamline more than 14,000 individual role descriptions into 970 cohesive, consistent profiles – and the organisation plans to reduce this total further. The creation of standardised job families and generic job descriptions has helped HR focus on the nature of contributions and core accountabilities defining roles across the organisation.

Moving to a consistent platform has provided a foundation for significant process efficiencies and a base from which the business is

IPE AS A FOUNDATION FOR GLOBAL CONSISTENCY

Mercer's proprietary International Position Evaluation (IPE) methodology evaluates each job by the value it creates within the context of an organisation's unique operations. Business-driven, user-friendly and versatile, IPE provides key input in job and organisational design. Much more than a levelling or grading tool, IPE forms the foundation of HR's most significant functions, systems and processes.

Find out more at www.mercer.com/ipe.

able to empower managers (via self-service tools) to manage – from end to end – the identification, recruitment and management of their workers in an efficient, streamlined manner across the globe.

Prior to the creation of the Global Job Catalogue, HR managers in the different countries and regions frequently had to write new job descriptions and decide the appropriate grading for each new post. In presenting managers with a predefined job structure, the Global Job Catalogue ensures that job profiles are fit for purpose and helps avoid process duplication.

The development of a standardised job catalogue is only the first step in the development of consistent HR policies and practices. The organisation plans to extend it to critical people processes, such as talent management, organisational development and multiple other areas.

BUSINESS BENEFITS

Implementation has laid a foundation that now enables business managers and AstraZeneca's leadership to access business-critical information about the organisation's workforce at the push of a button. Previously, such information had taken days or even weeks to collate and consolidate. Having commonality among roles provides a consistent basis to better inform central decision making on business-critical people processes, including global talent management and succession planning.

Linking to AZEngage, the Global Job Catalogue has handed responsibility back to line managers by allowing them to spend more discretionary effort supporting business priorities within their teams, and it lays a foundation for manager access to real-time information on their workforce profiles.

The focus of the Global Projects Team has switched from implementation to assurance and support. With standardised procedures now in place, the company's global People Practices HR Team and local HR teams have been able to move to a more strategic HR function, giving a higher level of support to HR's business partners.

Employees also benefit from a greater level of transparency. The Global Job Catalogue enables them to see the capabilities required for different jobs across the organisation and take responsibility for their career paths and development planning.

LESSONS LEARNT

Reflecting back on the project, a number of factors contributed to the success of the Global Job Catalogue implementation.

The team knew that the time it spent during the initial 12-week period clearly defining the framework and end goal was critical to success. At this early stage, the team had partnered with Mercer to understand lessons learnt from other leading multinationals that had undertaken a similar journey. This helped support the definition of AstraZeneca's objectives and project structure. For the team, having a clear vision for delivery was a critical reference point, providing context to the change-management challenges the team faced during implementation.

By establishing a clear and robust project vision, the team was also able to communicate direction to senior leaders effectively and establish clear governance structures to support implementation. By having narrowly defined exceptions (for example, due to collective agreement, legal or business cost impact) in place and engaging the Global Leadership Team in final approvals, the Project Team was able to ensure and maintain adherence to the overall project vision.

The approach to stakeholder involvement was also identified as an important factor in the project. Within AstraZeneca, strong project leadership and early engagement of the global HR team helped the Project Team ensure that the benefits of implementation were clearly understood. In tandem, a targeted approach to business engagement in the early stages allowed for efficient delivery and enabled the team to stay within its initial 12-week timescale for concept development. During the project, AstraZeneca adopted a flexible partnership model, drawing on Mercer's consulting expertise at a local level as needed to help AstraZeneca's country teams tackle barriers to implementation when issues emerged.

As with any significant global change programme, the team faced challenges during implementation, including the impact of increased transparency, which highlighted other issues within the organisation that had previously not been visible either within countries or centrally. Acknowledging these challenges while maintaining a focus on the end goal was an important lesson for the Project Team. Ultimately, the successful delivery depended on both adaptability and recognition of the longer-term change agenda, along with acknowledgment that not all of the issues identified could be resolved in the short term.

A BASIS FOR ENHANCING HR VALUE

Implementation of a core, common and consistent Global Job Catalogue has provided AstraZeneca with a platform that provides robust visibility across the entire global organisation for the first time. The Global Job Catalogue helps facilitate the provision of business-critical insights that will fundamentally change the way in which business decisions are made.

For AstraZeneca, the catalogue provides a basis for understanding how people are deployed against the business model to both enhance the firm's effectiveness and understand the capabilities required to deliver the strategy at micro and macro levels. These insights will directly inform AstraZeneca's talent, leadership and management development agenda and enable the organisation to target and tailor investments in the global workforce more effectively to support the firm's long-term business strategy.

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USAGE OF METRICS AND ANALYTICS IN EMEA

MOVING UP THE MATURITY CURVE

When we asked business executives about the importance of human capital measurement in a research project we conducted across the Europe, Middle East and Africa (EMEA) region in 2010,[1] on average, companies of participating executives spent 32.6% of their revenues on human capital (such as compensation and benefits, training and development, and other people-related investments), yet only 15.9% said that they had more than a moderate understanding of the return on these investments.

Since then, the workforce measurement (metrics and analytics) discussion has gained further momentum within European organisations. Business and HR decision makers increasingly show a strong desire to better understand the business impact and outcomes related to their people investments.

Workforce metrics and analytics also are receiving a "rising board interest", which is reflected in business executives' views about key audiences for workforce metrics: the leadership team and board members are the most important stakeholders, followed by non-managerial employees. External stakeholders, such as investors, banks, analysts and rating agencies, are still seen as the less-important audiences.

THE "BIG DATA" DISCUSSION HAS ARRIVED IN HR AND IS CHANGING THE LANDSCAPE

Software companies have made significant investments in data management and the analytics capabilities of their platforms. And with the fast emergence of the cloud, this part of the software industry is growing very fast. Cloud computing enables organisations to store and access larger amounts of data more easily, regardless of location and company size.

[1] Spehrer-Patrick E. "Human Capital – An Appreciating Asset" in *The Human Capital Agenda in EMEA: Succeeding in an Era of Contradictions* (Mercer, 2010), available at www.mercer.com/HumanCapitalAnthologyEMEA.

For HR, this poses the challenge to combine various sources of workforce data in the analytics process. These sources include:

- Candidate/applicant data (curricula vitae, references, education, certificates)
- Core HR data (employee attributes, demographic data, compensation and benefits data)
- Learning and talent data (performance data, competency data, succession data)
- Perceptual data (feedback from employee engagement surveys, exit interviews, opinion polls)
- Social media data (internal and external social media)
- Labour market data (internal and external labour market data)
- Business operations and finance data (strategic planning data, budget data, business and financial performance data, accounting data, etc.)

As data become more available, many organisations are now focusing on leveraging the various data sources in their quest for better analytics to inform people-management decisions. Yet questions still remain:

- How exactly do organisations use metrics and analytics to support their decision making?
- Are adequate capabilities available to do the analytics work?
- Who is the audience for HR analytics and metrics within and outside the organisation?

To obtain answers to these questions, Mercer conducted a survey in autumn 2012 with more than 250 HR executives and professionals from across EMEA about how metrics and analytics are used in their decision making.

SURVEY RESULTS HIGHLIGHTS

Our recent survey revealed the following:

- Within the HR function, organisations are more likely to guide their decisions by using ongoing reports and benchmarking among internal and external peer groups, as opposed to using more sophisticated analytic techniques, such as projections, simulations and predictive modelling. Furthermore, there is a higher degree of confidence that these less-sophisticated analytics better facilitate decision making.
- Supporting the relatively low use of more sophisticated analytics, respondents believe that HR professionals do not possess an adequate skill level to perform them. However, the majority of organisations that use less-sophisticated metrics are those that say they don't have the talent to support them.

- In the survey, 97% said they use analytics to develop ongoing reports (87% of them use analytics often) and 82% use analytics to internally benchmark (42% of them use analytics often).
- Yet only 26% use analytics for predictive modelling (and 8% use them often). In fact, use of advanced tools trails off significantly as they become more sophisticated, as outlined in Figure 1. Whichever type of analytics is used, its use leads to better compensation decisions, albeit at varying degrees, according to respondents.

Figure 1
Range of Analytical Strength by Type of Analytics: EMEA

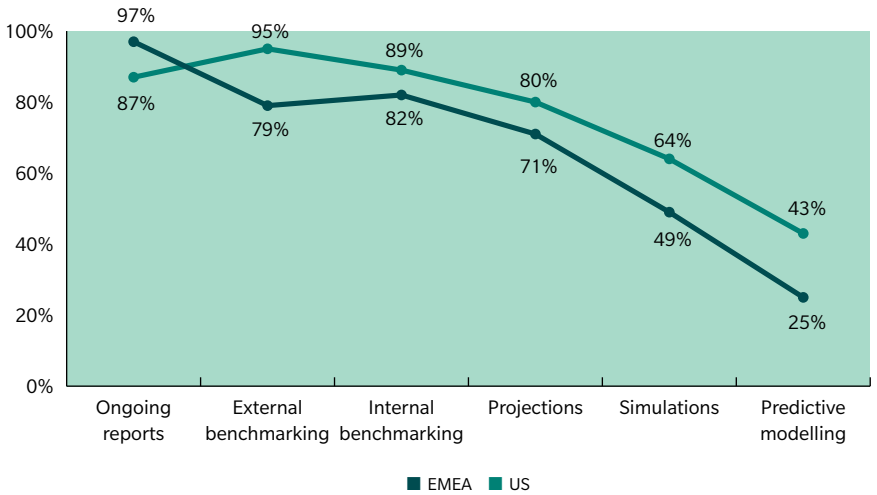
RANGE OF ANALYTICAL STRENGTH		TYPES OF ANALYTICS USED TODAY WITHIN THE HR FUNCTION	ANALYTICS PERCEIVED BY PARTICIPANTS TO LEAD TO BETTER COMPENSATION DECISIONS*
Less powerful	Ongoing reports	97%	66%
	External benchmarks	79%	72%
	Internal benchmarks	82%	72%
	Projections	71%	62%
	Simulations	49%	45%
More powerful	Predictive modelling	26%	36%

*Participants who did not use the specified analytic were excluded from this percentage.

Source: EMEA 2012 Metrics and Analytics: Patterns of Use and Value Survey

The results are consistent with those obtained from US organisations that participated in the WorldatWork and Mercer US Metrics and Analytics: Patterns of Use and Value Survey conducted in February 2012.

Figure 2
Range of Analytical Strength by Type of Analytics: EMEA/US Comparison



Source: US and EMEA 2012 Metrics and Analytics: Patterns of Use and Value Survey

HR professionals may be falling behind their peers in other functional areas of the business in their use of increasingly sophisticated analytics methodologies. One example is in marketing, for which analytics are used to predict demand and buying behaviour in specifically defined consumer segments for a certain time and location.

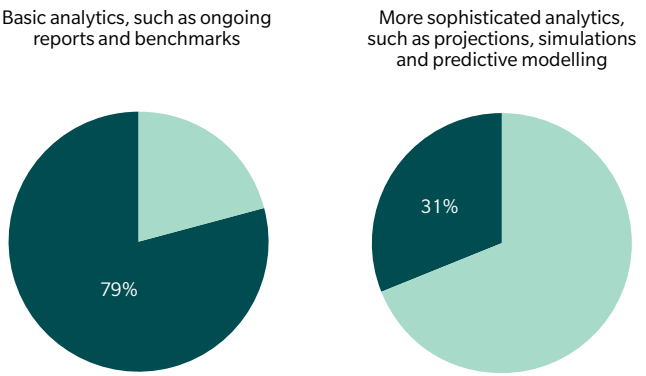
Understanding the drivers for employee retention, employee productivity and the total return on human capital investments is crucial to maintaining a competitive advantage for the organisation.

The survey also revealed that despite a lack of the right tools and technology, in support of the relatively low use of more-sophisticated analytics, respondents (69%) believe that HR professionals do not possess an adequate level of skill to perform them.

Figure 3

Current Skill Levels of HR Professionals to Perform Analytics

Strongly agree/agree that HR professionals' skill levels are adequate to perform:



Source: EMEA 2012 Metrics and Analytics: Patterns of Use and Value Survey

WHAT ARE THE BARRIERS TO USE OF MORE POWERFUL ANALYTICS?

- Inadequate skill level within the HR function?
  Yes. Only one-third of respondents (31%) indicated that the HR function has an adequate level of skill to perform sophisticated analytics such as projections, simulations and predictive modelling. In fact, only 79% indicated that their HR function has an adequate level of skill to conduct basic analytics, such as ongoing reports and benchmarks.
- Limited staffing resources?
  Perhaps. Half of all respondents (50%) have one to two full-time equivalent (FTE) employees responsible for HR-related analytics, which would equate to five to 10 people spending 20% of their time on analytics. Given that two-thirds (64%) of organisations have between 1,000 and 10,000 employees, one to two FTE employees sounds about right for organisations that are starting to delve into deeper workforce analytics.

- Uninterested leadership?
  No. According to the survey, almost three-fourths of respondents indicated that their top/C-suite executives and their HR leaders have requested workforce analytics. However, although executive leadership is showing strong interest, only a little more than half (59%) of respondents reported that their divisional business leaders have requested workforce analytics, and fewer (37%) are being asked by line managers.

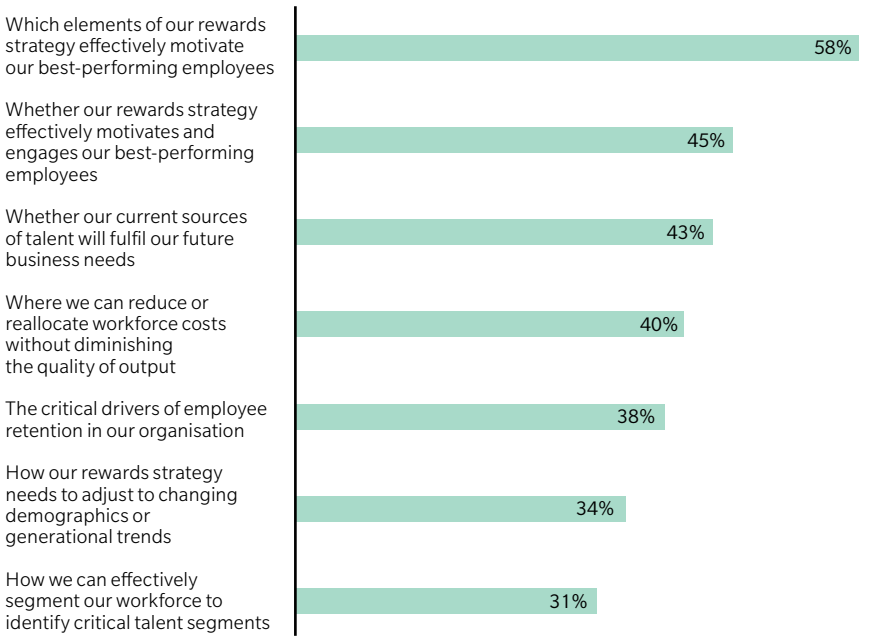
WHERE IS THE JOURNEY HEADING?

When asked what respondents would like to explore through analytics that they are unable to do today, survey respondents said they would most like to gain greater insights to effectively motivate our best performing employees (58%) and whether the rewards strategy motivates and engages top-performing employees (45%) – and, at the same time, they would like to determine the strategy's overall effectiveness.

Figure 4

Metrics and Analytics Should Do the Following ('Wish List')

Selected as a top-three choice



Source: EMEA 2012 Metrics and Analytics: Patterns of Use and Value Survey

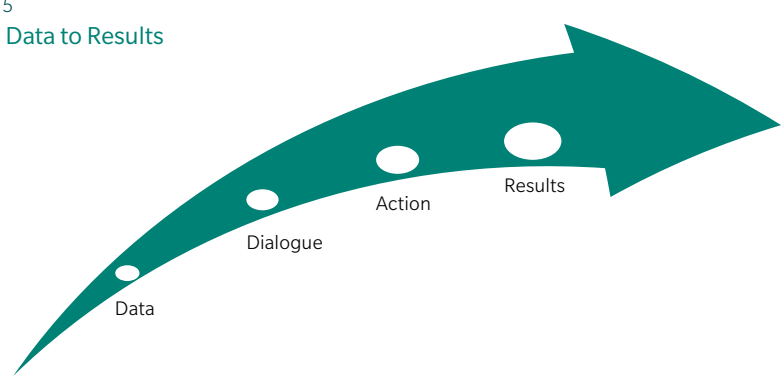
Furthermore, this observation underlines demographic shifts that, combined with economic and operating pressures, are creating significant risks for organisations. Firms around the world – and particularly those in Europe – are facing severe long-term talent and skills shortages. Having the right number of employees with the right skills in the right place to execute the business strategy is key in today's competitive landscape.

CONCLUSION AND RECOMMENDATIONS

The study shows that European companies are maturing in the application of metrics and analytics as a decision-support process. However, further development of capabilities will be required to apply advanced analytics and metrics, supported by adequate tools and data infrastructure.

For HR, now is the time to build these capabilities in the organisation, but it will require the right governance, resources and technology. The skills that HR needs to build include the analytical capabilities as well as those related to mathematical and statistical modelling. In addition, it is also critically important to blend the analysis and research with the art of storytelling: the "magic" of workforce analytics is in the dialogue phase. It is the basis to transform "big data" into a story that evokes emotion, dialogue and action within the organisation:

Figure 5
From Data to Results



Source: Mercer 2012 web briefing together with Theresa M. Welbourne, Professor of Business and Director of the Centre for Entrepreneurship, University of Southern California

Mercer advises organisations to keep the following in mind during this journey:

- Train your workforce and equip it with the right skills to apply more sophisticated analysis that can be incorporated into scenario planning and the overall business strategy.
- The application of metrics and analytics is a process, not a project. You want to be able to run the analysis, rather than just capture and store data.
- Typically, the application of workforce analytics and metrics evolves through a number of levels of maturity, and different companies are at different stages of the journey.
- Develop both short- and longer-term views when starting your journey. Think about the short-term aspects of workforce planning, but keep in mind the longer-term resourcing challenges.
- The use of workforce analytics and metrics in decision making is a cultural change for most organisations, especially where anecdotes and retrospective reports have dominated the discussion. A data-analytics and insights-driven approach reinforces a different mindset that needs to be developed and nurtured over time – within HR and the line-management organisation.

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MANAGING THE CHANGING WORKFORCE DEMOGRAPHIC IN GERMANY

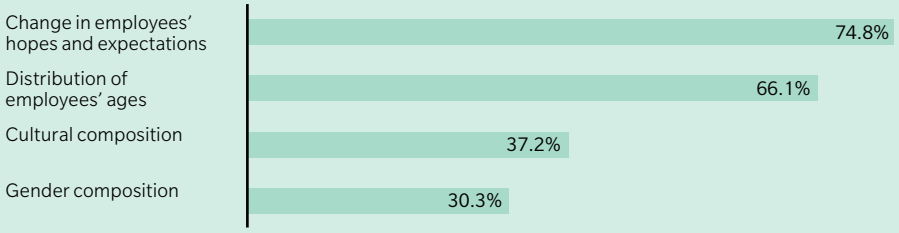
The demographic shift is creating a change in the working environment in Germany and is posing a great challenge for companies. In economics, politics and the media, new forecasts and figures are driving a constant discussion about the ageing workforce and the lack of trained professionals. But are these words followed up with action? What does the reality truly look like in companies? How are companies' decision makers trying to overcome these challenges, and what changes have been put into place? How is the changing workforce affecting recruitment strategies, and what resources are companies making available in order to successfully manage the effects of these developments?

To find answers to these questions and many others on the topic of demographics management, Mercer and Bertelsmann Stiftung extensively surveyed general managers, HR managers, HR employees, work councils and managers outside the HR function from more than 200 companies in Germany, along with a handful in Austria and Switzerland, at the beginning of 2012. This article summarises the key findings of this study.

CHANGING WORKFORCE LEADS TO GREATER POTENTIAL FOR CONFLICT IN COMPANIES

Those surveyed believe that the greatest effect that the changing workforce demographic has had on companies is a shift in the hopes and expectations of employees, followed by a greater variation in employees' ages. (See Figure 1.) These figures highlight the trend towards a multi-generational workforce that is forcing companies to respond to the needs of individual age groups.

Figure 1
What Changes Are You Currently Experiencing in Your Workplace Due to the Changing Workforce Demographic?



Moreover, those surveyed have also been experiencing a shift in the workforce – more than half have perceived a decline in the standard of applicants' qualifications, and nearly 40% have perceived a downward trend in the level of experience or ability of applicants.

Approximately half of those surveyed (52.8%) believe that the shift in the workforce demographic had led to a greater potential for conflict in the company, resulting from a change in employees' hopes and expectations (45.5%), the distribution of ages (37.6%), the changing standard of applicants' qualifications (23.5%) and applicants' level of experience and ability (22.6%).

ATTRACTING EMPLOYEES: ONLY 8% ARE TARGETING AN OLDER DEMOGRAPHIC

Only just over half of companies in Germany (53.2%) are expecting an increase in the number of people ages 60 or older who will remain in employment. This is surprising, considering that in 2010, the percentage of those ages 60–64 employed in Germany rose to 40.8%, a 2.4% increase from the previous year, and all forecasts suggest that this will increase further in the coming years.

It is downright alarming that only 8% of companies specifically target an older demographic in their recruitment strategy. Although just over half of companies (52.3%) have tailored their recruitment strategies to the changes in the workforce, these efforts mainly target the younger age groups.

More than a third of companies have not yet carried out an analysis of employees' ages – indeed, more than half of companies with fewer than 250 employees have not done so (though this figure drops to only around 20% for the larger companies with more than 5,000 employees).

MAINTENANCE OF PERFORMANCE, CAPABILITY AND HEALTH OF EMPLOYEES ARE KEY THEMES

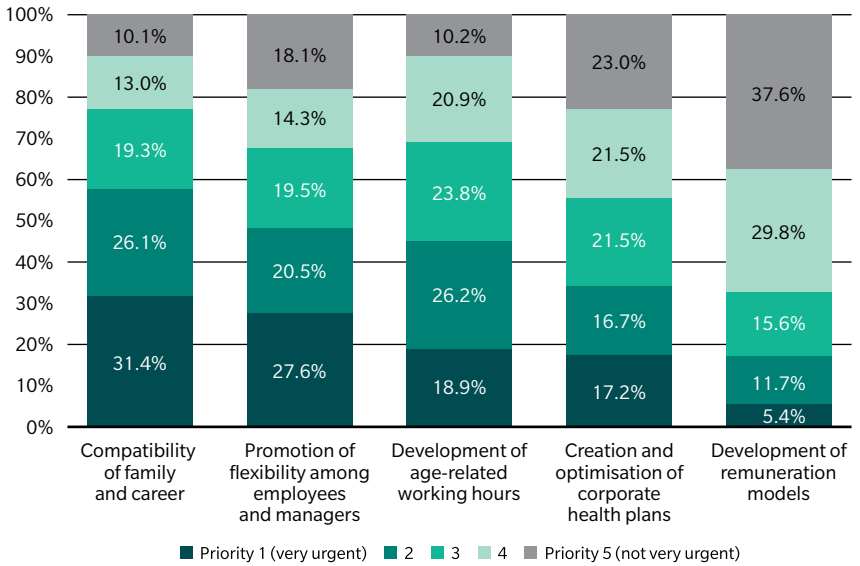
In the context of the changing workforce demographic, maintaining employees' performance, capabilities and health is the topic of highest concern to the companies surveyed. Training and succession planning are also topics of great importance. Promoting intergenerational coexistence is a comparatively low priority, although the multitude of generations in one setting is viewed as an issue that has the potential to bring a lot of conflict to the workplace.

The areas in which those surveyed saw the greatest need to act include ensuring better balance between family and career and carving out

more flexibility for employees and management. Although respondents cited awareness of the changing age demographics in the workforce, the development of age-related working hours remains a middling priority.

Figure 2

Where Do You See the Greatest Need for Change in Your Country?

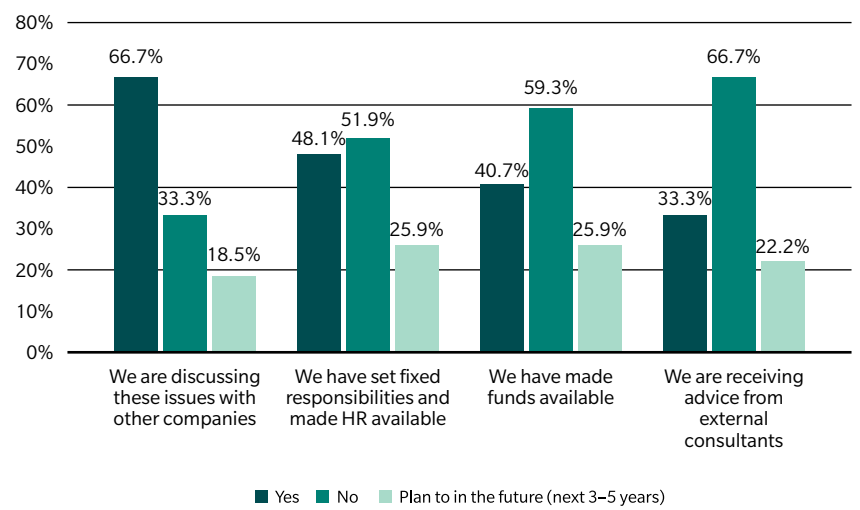


HUMAN AND FINANCIAL RESOURCES ARE LACKING

Companies are relying on outside consultants and learning from other companies to master the challenges that the changing composition of the workforce presents. More than half of the organisations surveyed have not yet assigned a dedicated HR team or given HR professionals fixed responsibilities to examine and address any issues coming up as a result of changing workforce demographics, and nearly 60% have not allocated any of their budgets to tackling this challenge.

Figure 3

What Resources Have You Made Available to Overcome the Challenges of the Changing Workforce Demographic?



That said, 71% of those surveyed believe that future investment is necessary – and this figure rises to nearly 90% in the larger companies (those with more than 5,000 employees), but the percentage drops to just over half of respondents among those representing smaller firms (fewer than 250 employees).

REQUIREMENTS FOR HR, WORK COUNCILS AND EXECUTIVES ARE CHANGING

As part of the study, participants were asked how the changes in the composition of the workforce would affect particular demands on their jobs in the next three to five years. All groups surveyed said that the growing need for employees to be prepared for change is a task that will become increasingly significant.

Currently, this topic is considered important by less than a quarter (22%) of HR employees and managers, and 60% believe that it will become important or even very important in the future. Strategic workforce planning is another topic that, according to HR, will become more important. Although less than 15% currently consider this an important or very important task, more than half of those surveyed said that it would become a larger priority in the future.

CONCLUSION AND RECOMMENDATIONS FOR ACTION

The study shows that companies are aware of the changing workforce demographic and the challenges resulting from this, but clearly there is not a great urgency among many organisations to take action. The foundations for successfully meeting these challenges have not yet been laid in many firms.

The changing workforce demographic may be a much-discussed topic these days, but its consequences for companies are not temporarily restricted and need to be addressed sooner rather than later – they can cause lasting damage to a company's success. For this reason, the

REASONS THAT MEASURES TO MANAGE THE EFFECTS OF THE CHANGING WORKFORCE COMPOSITION ARE NOT IMPLEMENTED

1. Lack of enough HR personnel to take on responsibilities for these topics (50%)
2. Do not see the urgency of the topic (39%)
3. No fixed responsibilities (37.2%)
4. Intimidated by the complexity of the topic (29.8%)
5. Lack of funds (25.2%)

problem should not be restricted to HR to deal with as a recruitment issue. It is necessary to create a company-wide strategy to manage the changing age demographics of the workforce in a way that fosters an internal culture in which the different generations can work together productively and efficiently.

The following practical recommendations can be taken from the results:

- Successfully managing changes in the workforce requires the company to make sufficient funds and HR available and to clearly establish responsibility.
- Since the demands on managers, executives and HR are changing due to the shifting age demographics of the workforce, reflect this in their job descriptions to help embed it in the company's culture. The company's and HR's strategies absolutely must be more closely interlinked.
- In order to mitigate the potential for intergenerational conflict in the workplace, companies should focus on the different hopes, expectations and needs that employees of different ages have. The consideration of different stages of life in personal development and the creation of adequate work-time schemes are only a couple of possible solutions.
- The trend towards multiple generations of employees has led to the need for a deeper understanding of the competences and strengths of different age groups as a basis for successful strategic personnel planning within the company. It is necessary to move away from a "deficit model" of ageing and to move towards a "competence model" in which it is clear that all age groups have strengths that can and should be put to good use. HR professionals involved with talent management should not orientate themselves around a small group of high-potential employees but should strive instead for developing different types of employee groups.
- Those involved with employer branding should focus more strongly on profiles and expectations of different generations for the future.
- In order to spot gaps in personnel early and be able to take the necessary steps to rectify these, implement an integrated recruitment strategy that goes beyond a yearly headcount and budget. Furthermore, it is necessary to get a clear picture of the future needs for particular skills in different departments so that, referring to the company strategy, imminent gaps can be identified and quantified. Only in this way can the necessary risk-management measures be taken early on.
- In order to actively influence the standard of qualifications and competence of potential new employees, companies must target specific schools and universities so curricula can be appropriately influenced.

- In light of the steadily decreasing pool of younger talent, companies should widen their recruitment strategies to include older potential new employees. Further, the female ratio requirement is imminent, studies and practical experience have shown that gender diversity promotes creativity and innovation and therefore contributes to sustainable company success.
- On principle, make a strong commitment to promoting work/life balance in the different stages of employees' lives. Instruments such as working-time accounts, with which the specific steering of retirement of employees is possible, are available for this purpose, and they can help ensure the preservation of knowledge within the company.
- To promote and maintain the efficiency and ability of older employees to continue working, the introduction of a strategic, professional health management plan is vital. Companies that have already set up measures to promote the health of their workers should critically analyse these measures and use the results to customise them for the changing needs of their workforce, if necessary.
- A consciously set up retirement provision, tailored to the needs of society and the workforce, is one of the strongest tools that can be used to motivate employees, to bind them to the company. A good example is the use of targeted early retirement models such as partial retirement.

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GENDER PAY EQUITY IN FRANCE

ARE WE DEALING WITH THE RIGHT ISSUES? A MERCER/VEOLIA RESPONSE

Even though legislation to ensure equal pay for men and women has been in place across most of Europe for 30–40 years, the disparity in pay continues to exist. As more countries introduce stricter regulations to close the gap, companies are rushing to conduct gender pay audits. Yet, all too often, a simple correlation of jobs performed by men and women is not possible, and gender is simply one of many factors contributing to the discrepancy in salaries.

THE LEGAL AND SOCIAL CONTEXT IN FRANCE

While the principle of pay equity for men and women has been enshrined in French law since 1972, it truly acquired teeth only in 2006, when companies faced a legal obligation to eliminate pay gaps for work of equal value through collective bargaining. Beginning in 2012, companies with more than 50 employees have faced a potential penalty of up to 1% of the total wage bill if they do not renegotiate their gender equity strategy annually. Gender equity extends across all HR processes (recruitment, promotion, terms of employment, working conditions) and not just pay equity.

French Labour authorities (*Ministère du Travail*) offer broad comparisons of average salaries across business sectors. Depending on the sector and job family, women are said to earn 15%–30% less than their male counterparts.[1] The Rapport de Situation Comparée analysis, a tool that the French government has introduced and now requires all companies with more than 50 employees to use, is a first step in comparing wages by gender according to employment levels.

However, it is a blunt instrument of analysis. If we examine the statistical data more closely, a more complex picture emerges. 2008 National Statistics Institute surveys of the labour market in France show that it is predominantly women who work part time (82% of all part-time workers, nearly 30% of the total working population), with nearly half of them citing children as the main reason for choosing this pattern of

[1] Source: Ministère du Travail, DARES, 2009.

work. Women are also more likely to retire at the age of 65, thereby accumulating fewer years in their pension pot. Additional factors affecting salary differences include, but are not limited to, the following: professional qualifications (and the schools from which employees have graduated), work experience/seniority, geographical mobility, internal job classifications, age, performance reviews and employment structures within the organisation.

All too often, comparisons of average or median salaries for men and women are not looking at "like for like". How useful, for instance, is a broad-brush comparison of the type below?

Figure 1
Sample Comparison of Salaries for Two Workers

PERSONAL DETAILS	MR. JONES	MS. SMITH
Age	49 years old	35 years old
Tenure	12 years	2 years
Performance	A+	C-
Degree	Master's degree	High school diploma
Job	Key Account Manager	Commercial Assistant
Annual base salary	€46,000	€28,000

Individually, the pay gap can be explained by:

- Job content and level
- Different experience (age, tenure, etc.)
- Note: The impact of seniority can also be calculated directly in case of seniority premiums (e.g.: 1% per year after 2 years – here: 10%)

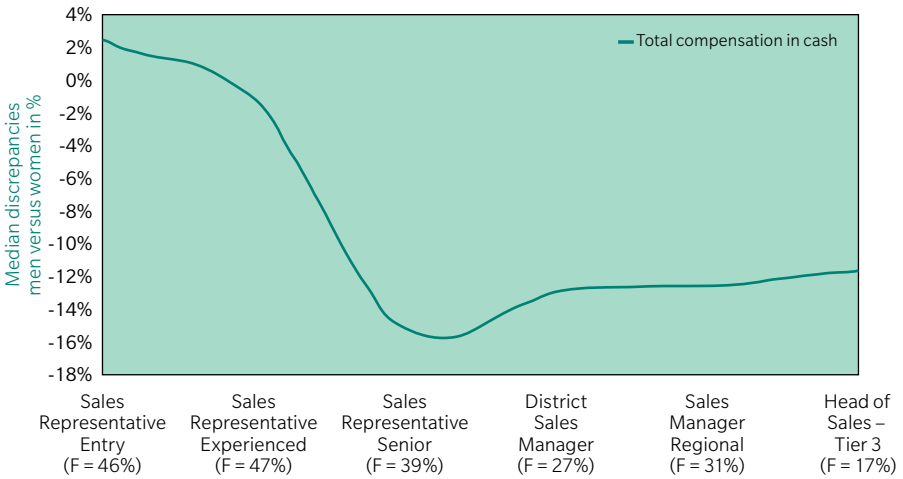
As a result, a method is needed to measure, on a reliable basis, the proper weights of relevant criteria in the pay gap.

Age and seniority, as well as level of qualification, can be much more useful tools in predicting compensation levels throughout a person's career. However, they do not operate in isolation. In the example on page 91, based on a Mercer remuneration data analysis[2] conducted in France, you can follow clearly the wage differentials throughout the career history of men and women within a corporation. Figure 2 looks at the sales function: at entry level, the proportion of male versus female employees is roughly equal and so are the salaries. After a few years, however (and particularly between the ages of 30 and 40), women may reduce or even cease their activity when they have children and are less likely to be considered for promotions. Thereafter, they will be unable to catch up with their male colleagues, in terms of both compensation and career progression.

[2] Source: Mercer 2011 Total Remuneration Survey

Figure 2

Evolution of Compensation Discrepancies Between Men and Women, by Level of Responsibility



COMPENSATION ANALYSIS BASED ON PRINCIPAL COMPONENTS ANALYSIS

Any pay equity approach must begin with a thorough analysis of compensation approaches. The traditional method of comparing median salaries by job groups fulfils the immediate legal obligations set out by French legislation. However, it does not provide a full picture for understanding the causes of the potential gender discrepancies in pay rates. Nor can it provide sufficient detail for an effective action plan to close the gap, adapted to the company's specific structure and culture.

A more rigorous research method is required, allowing for proper weighting of all the criteria relevant to the pay gap. For instance, the three factors that seem to explain pay differentials most accurately in France are age, professional work experience and tenure within the branch or department of the organisation – gender and performance reviews do play a role, but one of less importance.

The Principal Components Analysis (PCA) methodology used by Mercer was originally developed in the US by Karl Pearson and Harold Hotelling some 80 years ago. It has since been perfected and is used largely as a tool in exploratory data analysis with multiple variables, as well as for making predictive models. Multiple regression analysis enables researchers to investigate the link between a dependent variable and a set of independent variables. The impact of one factor, therefore, does not change, even when we add other factors to the analysis.

In the case of compensation analysis, companies must fulfil the following requirements to enable a successful PCA result:

- Job cluster units of analysis (job families, job groups, job categories or banding)
- Compensation components to analyse (base salary, variable pay, bonuses, etc.)
- Factors (such as gender, tenure, age, performance assessments, qualifications and promotions) that could explain pay discrepancies

Of these three elements, the first one is the most important. It is critical to make the correct choice regarding the level of granularity or detail for analysis. The sample size has to be sufficiently large (preferably 20 or more people), homogeneous in terms of functions and hierarchical levels, and well-balanced in terms of gender. In some cases, statistical constraints may make it necessary to revert to a less precise level of analysis (moving from job levels to job groups, for example).

CASE STUDY

STUDY OF POTENTIAL PAY GAPS REVEALS THE NEED FOR EFFICIENT TOOLS AND PROCESSES AT VEOLIA

Since 2008, Veolia Group has been committed to promoting diversity at all levels within the organisation, putting in place an ambitious action plan that has been recognised at a national level through the award of the Diversity Certificate in 2010. Eric Bachellereau, Senior Vice President, Deputy CHRO for Veolia Environnement, shares his company's most recent efforts towards ensuring that pay equity is achieved.

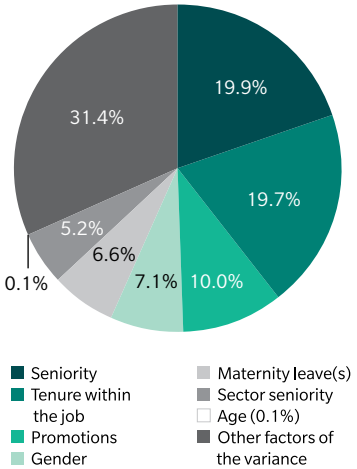
"Given the new rules in place in France regarding gender pay equity, in 2012, we decided to launch a pre-study to determine whether such a gap existed within our organisation. We chose the Mercer PCA method and decided to focus first on senior executives, a population of 428 employees at the company headquarters. It became clear very quickly that the quality of the method is dependent on both the quality of the information provided and the accuracy of the granularity of the survey data.

"The first study has enabled us to better understand potential existing gaps in job categories or families, by age and by gender. Furthermore, it demonstrated the strong need to have both an efficient HR information system (HRIS) and a clear, well-maintained job weighting process that helps ensure that a clear classification system is in place. As a result, we have launched multiple action plans based on the issues identified through the PCA method and the potential weaknesses in our global HRIS. We have also discovered the power of statistics and the need to create consistent population groups.

"One shot is not enough. This method deserves to be repeated on an annual basis in order to ensure that we are developing real and accurate action plans – and not merely giving lip service in our corporate communications."

Our research within French companies such as Veolia (see the case study on page 92) or Coca-Cola Enterprise France has enabled us to identify the factors that lead to discrepancies in pay rates between women and men and weight them according to their relative impact. In the example below, we can see that, although the average annual pay gap between men and women for one particular job category is €2,290, once we examine the data more carefully, we discover that gender accounts for only 7.1% of the average difference. An undifferentiated approach to gender pay equity would see a company rush to repair the gap and most likely focus resources on the wrong elements, without taking into account the larger picture.

Figure 3
Principal Components Analysis



FACTORS	DIFFERENCE IN %	DIFFERENCE IN €
Seniority	19.9%	€456
Tenure within the job	19.7%	€451
Promotions	10.0%	€229
Gender	7.1%	€163
Maternity leave(s)	6.6%	€151
Sector seniority	5.2%	€119
Age	0.1%	€2
Total	68.6%	€1,571
Other factors of the variance	31.4%	€719
Total pay gap	100.0%	€2,290

In this example, the average annual pay gap between females and males for one job category is €2,290:

- For 1,000 people, the cost of alignment would be €2,290,000/2 (if F/M = 50%/50%).
- But gender accounts for only 7.1% of the average difference (€163 versus €2,290); therefore, an alignment based on gender would only cost €163,000/2.

Throughout the compensation research that Mercer has conducted on behalf of clients in France, the gender element has rarely, if ever, accounted for more than 10% of the pay disparity. This should give pause for thought before jumping on the bandwagon of salary top-ups, which may solve the problem in the short term but do nothing to address more profound structural issues and which cannot lead to sustainable long-term development of professional equality.

CONCLUSION

If companies are serious about redressing the gender imbalance, they need to gain a better understanding of all the factors involved in creating these differences in compensation. The emphasis needs to be on career management, to ensure sustainable gender equity at each stage of the employment process (from recruitment to merit increases, promotions and job structures).

What our research made abundantly clear is that one element is particularly important for companies to get right before they can even attempt a compensation analysis: correct job levelling classification. It is essential to provide a robust framework for reference and comparison. Whatever classification system is chosen (job grade, job group, position classes, bands), it has to be applied consistently throughout the organisation and maintained regularly.

Finally, the mandatory annual review of pay equity should not be viewed as just another legislative burden. Instead, it offers companies the unique opportunity to review their compensation policies and practices and design a truly holistic reward policy. The PCA method equips them with excellent causal data to prepare strong action plans for collective bargaining and, in the long term, to become an employer of choice.

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BRINGING INNOVATION INTO COMMUNICATING WITH AN INTERNATIONAL WORKFORCE

Picture this: you are leading a project in your company to implement a new rewards structure and have just had it signed off by the board. The new rewards promise to engage employees, retain talent and make the once-tedious process clearer and more transparent. You know it's a good thing and the company's leadership agrees. So you fire off an email to all managers, telling them about the new structure and asking them to cascade the information to all employees. You have attached a PowerPoint slide presentation that explains the changes in detail. You know your managers are adept at communicating to employees, so you leave it in their capable hands.

Now you can sit back and relax, right?

Well, not quite.

Put yourself in your managers' shoes or, better still, those of the rest of the employees. Merely receiving a copy of a PowerPoint presentation about a change that affects the whole organisation probably doesn't quite have the optimal effect in terms of ensuring honest and open communication.

If you walk into the staff canteen that day and sit next to a group of affected employees, chances are you will overhear many disgruntled conversations. There will be questions and rumours, and you might be able to identify the troublemakers and gossipmongers. But what you might not be able to identify are those employees who may not understand the changes but don't feel they have anyone they can ask about them. If they do not understand the implications, you may not realise that they could become a "flight risk".

You may be wondering why they are so confused and not seeing the benefits for everyone. The reason is that you have gone down the Change Curve and are already on your way up. But they have only just tipped off the edge. Remember, employees receive and process information like this:

- First and foremost, what's in it for me?
- Then, what does it mean for my job?
- And finally, what effect might this have on the company?

In relation to rewards in particular, employees are understandably sensitive about communication, and this can often present a challenge. The right communication can correct an inaccurate perception, but a good thing can backfire if it is communicated badly; reward strategies and change can prove to be futile if the underlying issue of communication is not effective.

HOW TO MAXIMISE WORKFORCE COMMUNICATIONS

While there is no "one size fits all" strategy when it comes to communications, here are some tips that work:

KNOW YOUR AUDIENCE

To begin with, it is important to segment employees, not just in terms of their demographics (age, job level, location, etc.), but also in terms of their behaviour (culture, lifestyle, preferences) and knowledge (their level of understanding, their financial astuteness, etc.). Does a majority of employees in your organisation prefer receiving information on a piece of paper or are these workers technology-savvy? Do you have a "bring your own device" culture at work? Do employees prefer "face time" as opposed to Facebook? Understanding your staff and their preferences would go a long way in defining and implementing a targeted communications strategy.

DEVELOP AN INTEGRATED CAMPAIGN

Successful rewards communication programmes are based on a strong brand and messaging that addresses emotional needs and answers the most important question for employees: what's in it for me? This needs to come together in the form of an integrated campaign that resonates with employees, rather than as a one-off exercise.

Developing a strong brand means, for some, crafting an identity, a logo and a few key messages that are repeated time and again. But rewards branding can and should be more than a logo: it should be a look, feel, voice, set of values and set of emotions. A brand, with clear, simple, action-oriented and substantive messages, could change the way rewards are perceived and make the exercise credible and free from hyperbole. Additionally, using the art of peer-to-peer storytelling and leveraging emotions through the experiences of employees, rewards communications can become so much more compelling, real and relatable.

Continued on page 97

DISENGAGED OR SIMPLY UNAWARE?

At times it's not about communicating a new rewards structure or a change; it can just be a case of simply ensuring that the current structure is communicated properly so that it is understood and valued by employees.

A case in point is that of a large global multinational that recently looked into the results of a detailed inhouse employee survey to identify why employees appeared disenchanted. The core of the problem, according to the analysis findings, was that the organisation's rewards structure was not working. The results of the survey implied that employees believed that their rewards were not directly linked to the appraisal system or performance, so any hard work they did would not pay off.

An initial discussion and audit of what constituted rewards in the organisation revealed an interesting fact: the way in which the company rewarded its employees was, indeed, directly linked to their performance,

BE SENSITIVE TO CULTURAL NUANCES

Adding to the already-complex nature of rewards communication is the cultural aspect. Many companies face the problem of being unable to translate a global rewards policy into the local context effectively. What might work in Germany might not work quite so well in Iran or vice versa. It helps to have trained individuals as "ambassadors" on the ground who understand the local cultural nuances and are able to adapt messages accordingly. Where that is not possible, translating messages into local languages and engaging top leadership or people who are change agents/influencers have proved useful.

USE A MIX OF MEDIA

Providing the right media for the right people so that the message you are aiming to communicate is not only heard but also understood and acknowledged is important. As tempting as the new social media revolution may be, not everyone in an organisation wants to be involved or feels comfortable with it.

CONSIDER THE TOTAL REWARD CONTEXT

Increasingly, employers are looking at their compensation and benefits schemes in the context of total reward, and this needs to be communicated as such. For example, in some countries, the focus is increasingly on performance management, whereas in others, the concept of job security, schooling for expatriate families' children and the use of recognition awards are hot topics. Communicating these kinds of things effectively, so that employees are aware of the benefits and understand them, is essential to maintaining an engaged workforce.

ASK FOR FEEDBACK

Finally, it is important that communication campaigns are constantly improved through employee feedback, whether this feedback is gathered through pulse surveys or formal sessions. Feedback makes employees believe that they are being heard, while employers gain insight into what is working and what can be improved.

but employees didn't seem to understand the rewards structure and components. This lack of understanding is what led to the employees being unable to be highly productive or put forward their best ideas and be genuinely committed to the organisation – that is, they were not "engaged".

WHAT DRIVES ENGAGEMENT?

This leads to the million-dollar question: what drives engagement?

Engagement is essential for optimising the value of your human capital. In a highly competitive global market, employers are endeavouring to build a differentiated and strong employee brand, and employees are thinking more about what they want from their work and careers. For both to get maximum value, there needs to be a clear understanding of what the employer is offering in terms of rewards and what the employee is offering in terms of loyalty and commitment. This can be achieved with the right communication strategy that takes into account employees' needs, perceptions and demographics while keeping the employers' objectives top of mind and properly communicating the Employee Value Proposition.

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GETTING IT RIGHT

Thankfully, communication does not have to be complicated to be engaging. In fact, the simpler it is, the more effective it tends to be. Sometimes getting answers to the "W" questions is all it takes. Why is the change happening? Who is it happening to? What exactly is going on? Where will it be implemented? When will it happen? And, of course, hoW will it be rolled out?

In organisations with engaged workforces, information cascades from top management to employees in a timely and orderly fashion. Equally, processes are in place for upward movement of information and feedback. Supervisors are trained to actively disseminate information, handle questions and provide feedback. They are brought into the loop of any change well in advance so that they are effectively able to put themselves in the shoes of their staff and convey the changes with empathy and passion. Messages are simple and consistent and are crafted to take into account the various learning styles of the employee workforce.

Organisations that "get it right" generally tend not only to have a fair and transparent rewards structure in place, but also to regularly communicate the full range of rewards and benefits available to employees.

When it comes to communicating with your workforce, there probably isn't a time when you can truly sit back and relax – but at least if you use the right methods and tools of communication, you can avoid confusion and rumours and get the key messages across in a timely fashion.

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