



**Mercer's
Asia HR Roundtable**

“The rise of HR in the new Asia”

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Pay for Results

Aligning compensation with business performance

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Agenda

- What we mean by “results”
- Objective setting
- Measuring results
- Linking pay to results
- Current issues to consider in Asia
- Questions and discussion

Results

What do we mean?

- Achieve strategic objectives
- Create shareholder value
- Maintain “line of sight”
- Cascade objectives to appropriate level
- Set targets
- Targets lead to performance measures
- Measurement leads to relative results

- All very simple!

Cascading the corporate strategy

Based on balanced scorecard structure

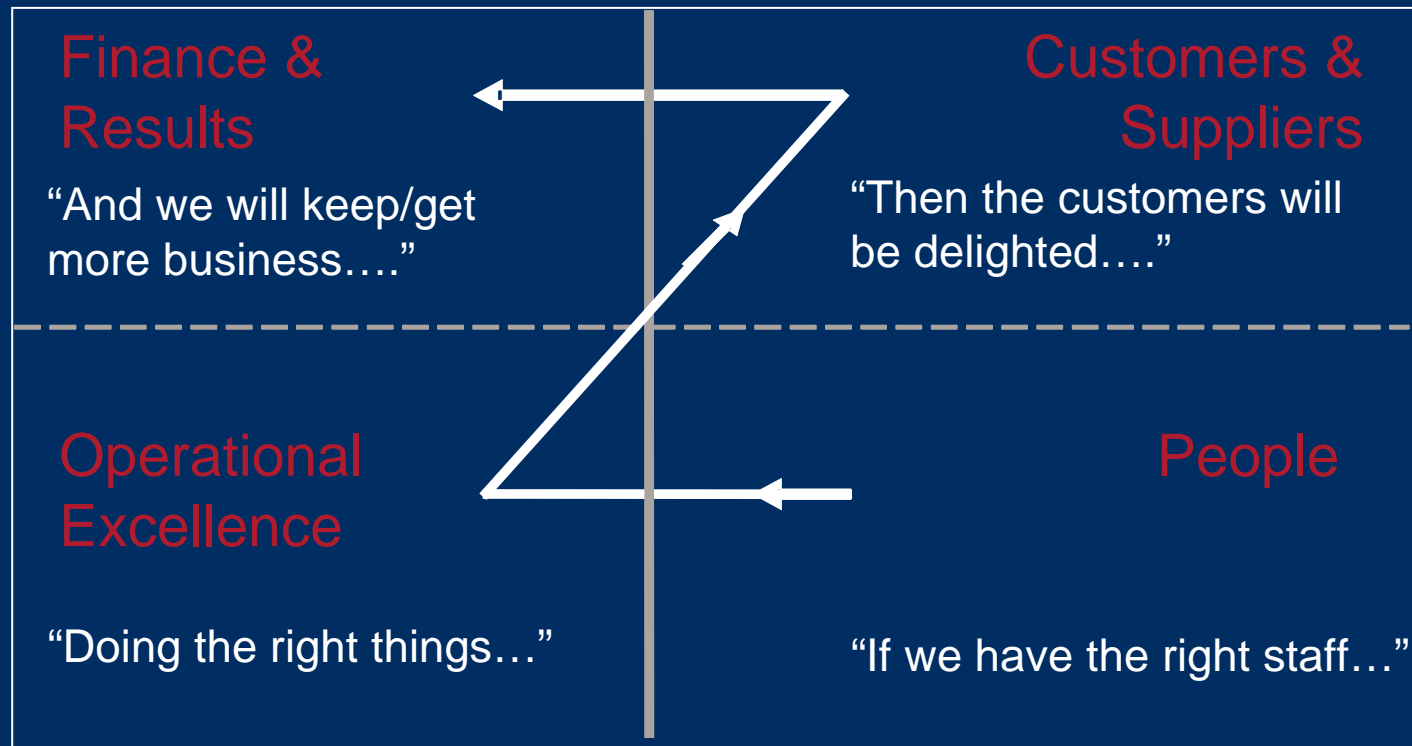
Transform vision and strategy into measurable, actionable indicators:

- Where is organization going?
- How do we get there?
- What do we need to “do well”?
- How do we measure how well we are doing?



Balanced scorecard

Used to cascade objectives



Cascading of objectives

Why it does not always work

- The balanced scorecard
 - Needs to be unbalanced
- Some objectives are more important
- Line of sight difficult
- Focus on generic rather than tailored objectives
- Too main objectives
 - No focus
- Every year a copy of the previous year
 - Need to tailor to specific circumstances
- Other approaches emerging

Objective setting in Asia

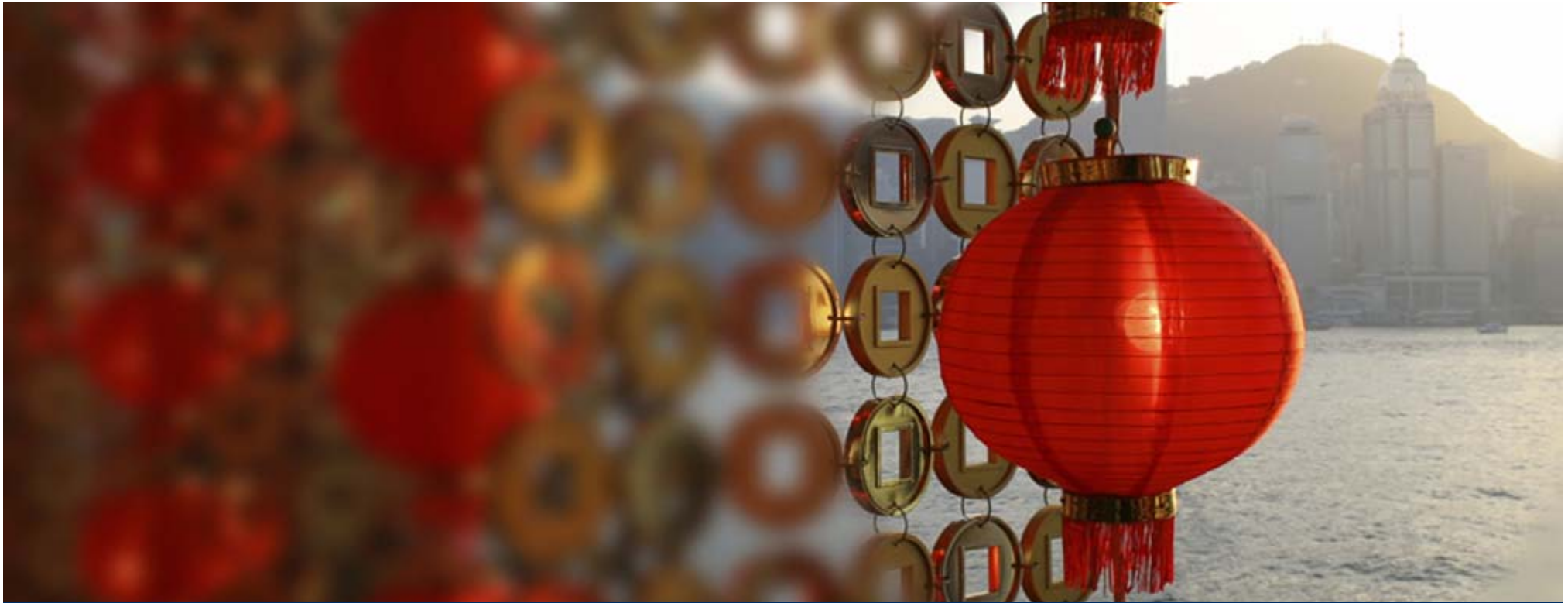
The challenges

- Economic predictions are for relative out-performance
- Organisations focusing on Asia
 - Economic activity
 - Domestic consumers
 - Low cost of labour
- But there are risks
 - Talent shortages
 - Business practices
 - Political uncertainty
- Typical risk/return scenario
- Challenge to reflect in objectives setting, measures and results
- And how to link to pay.....

Pay management in Asia

The challenges

- Acute shortage of talent
- High expectations
- Less structure in developing markets
- Greater emphasis on pay than other rewards elements
- Employees move many times in career
- Active recruiters
- Operating budgets still tight
- Competitors for talent flexible
- Is this your experience?



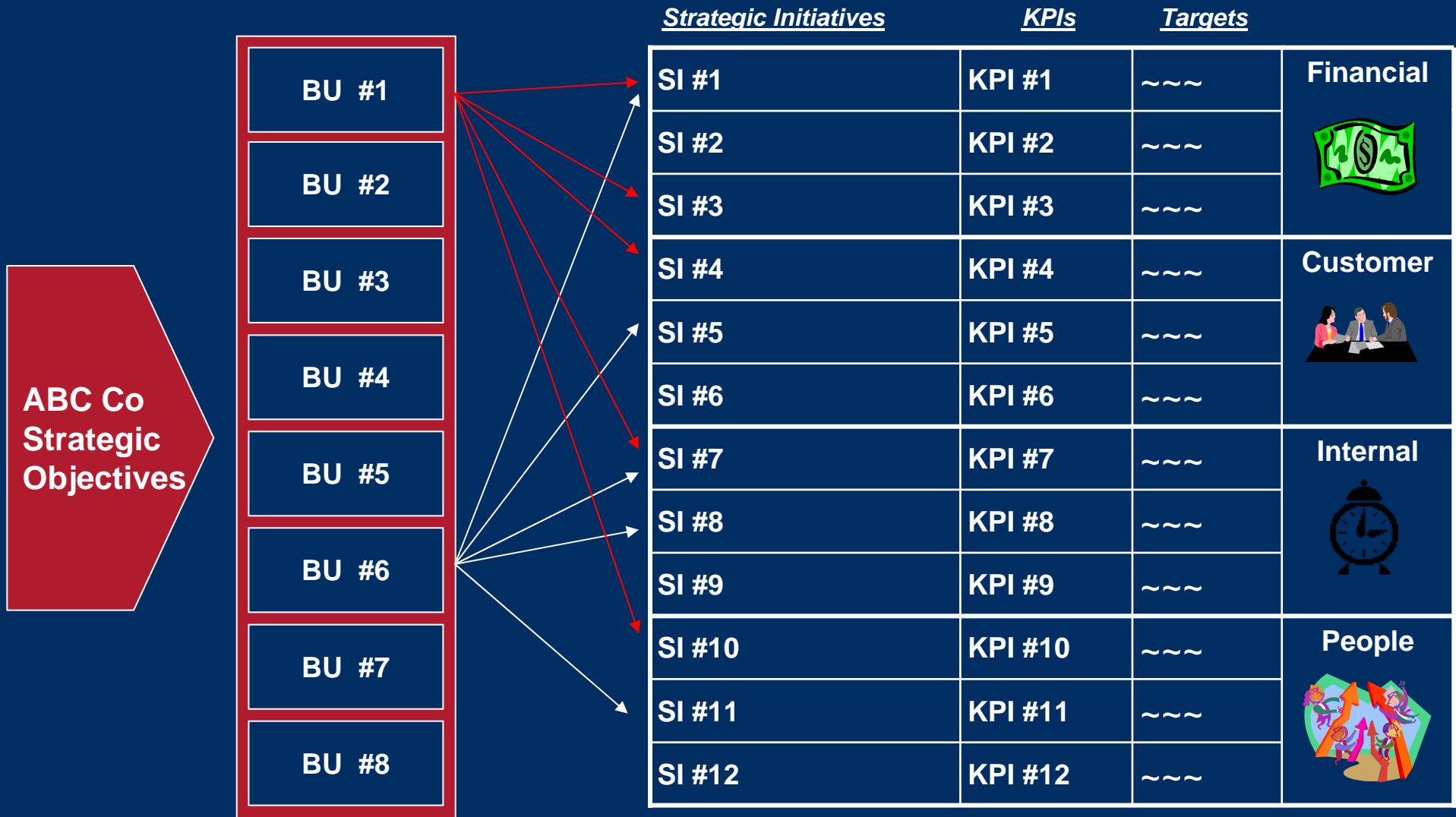
Objective setting

Objective setting Multiple perspectives



Cascading the objectives





Begin at the organisation level

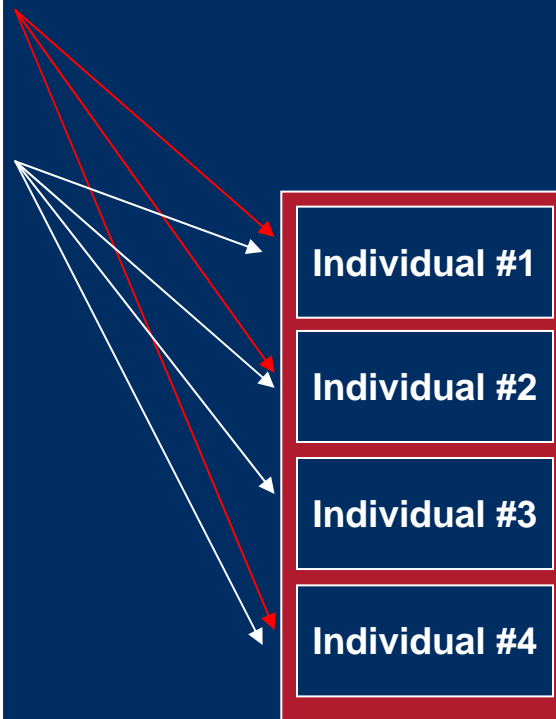


Cascading the objectives

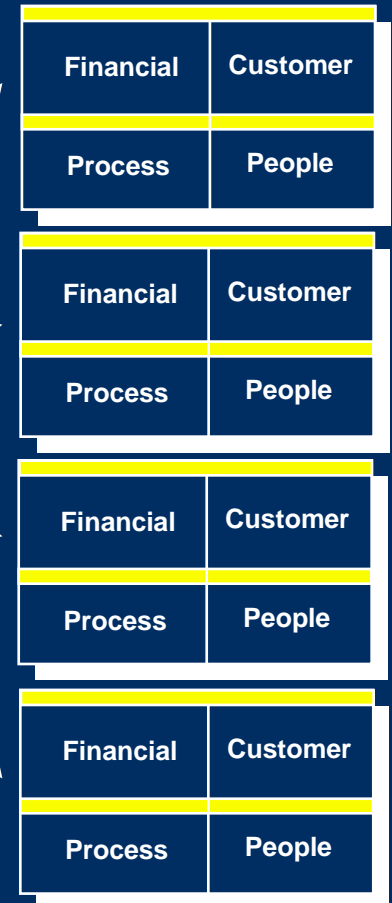
Continue to business unit and individual

Strategic Initiatives & KPIs

Financial 	SI #1	KPI #1	~~~
	SI #3	KPI #3	~~~
Customer 	SI #4	KPI #4	~~~
	SI #6	KPI #6	~~~
Internal 	SI #7	KPI #7	~~~
People 	SI #10	KPI #10	~~~



Individual KPIs



Unique character of each business

Drives decisions about performance measurement

Internal Business Context

Does the performance measure capture the industry dynamics?
Are there industry specific factors that may drive performance and must be accounted for?

Industry

Is the measure appropriate for the company given its financials and/or operations?

Will the performance measure fit with the culture of the organization?

Company

Does the performance measure support the company's business strategy?

Strategy

Does the performance measure fit the industry, company, and strategy?

Fit

Measure Choice

Is the measure meaningful?
Will the measure drive shareholder value and the desired behaviors?

External Value Correlation and Design Tradeoffs

Complexity

Is the measure simple to understand and implement?

Accuracy

How well does the performance measure capture the economics of the business?

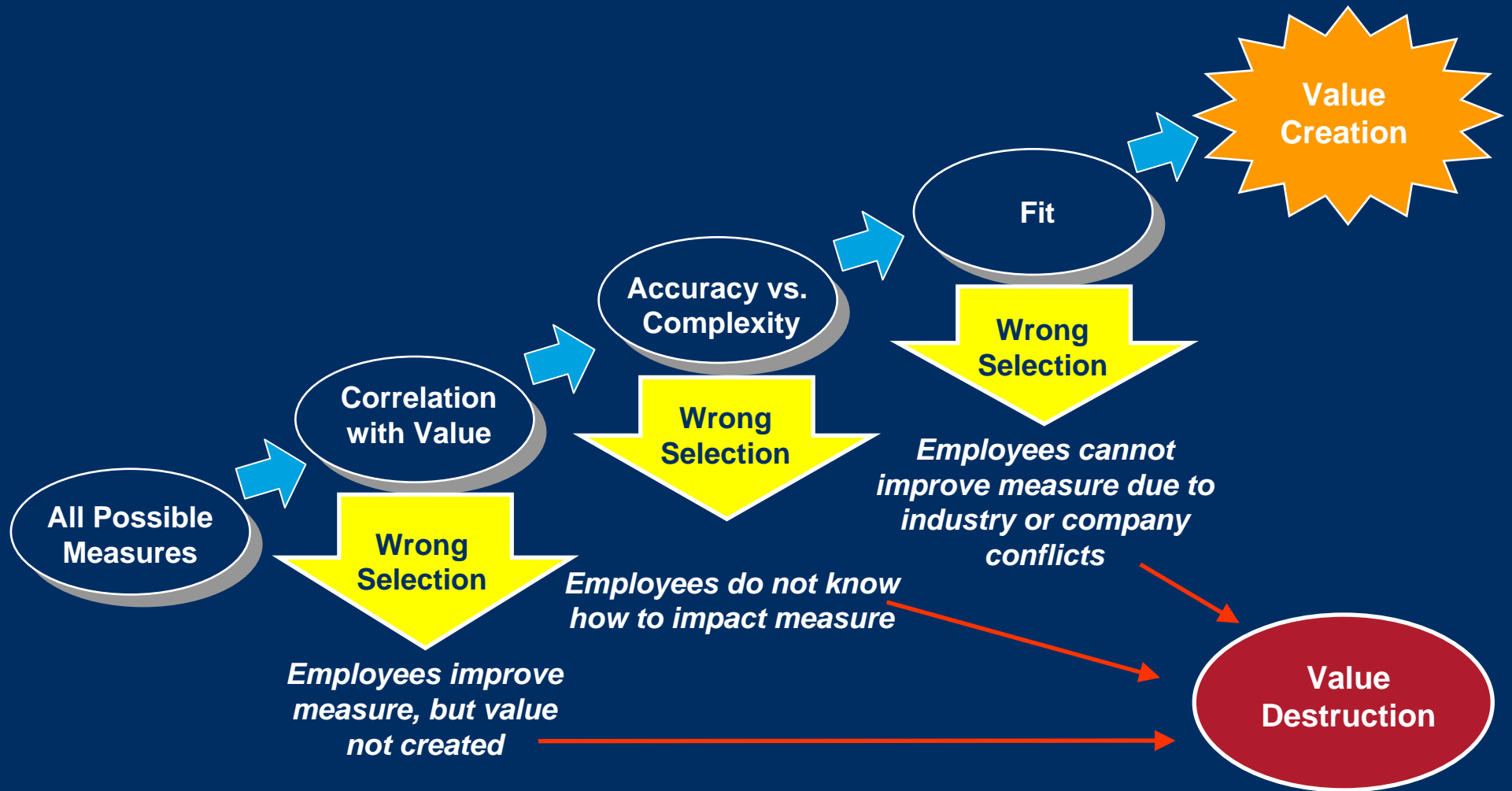
Does the measure capture enough information to reflect the performance of the company?

Correlation

How well does the measure correlate with the company's value creation?

Objective setting

Ensure value creation



Objective setting

The people quadrant

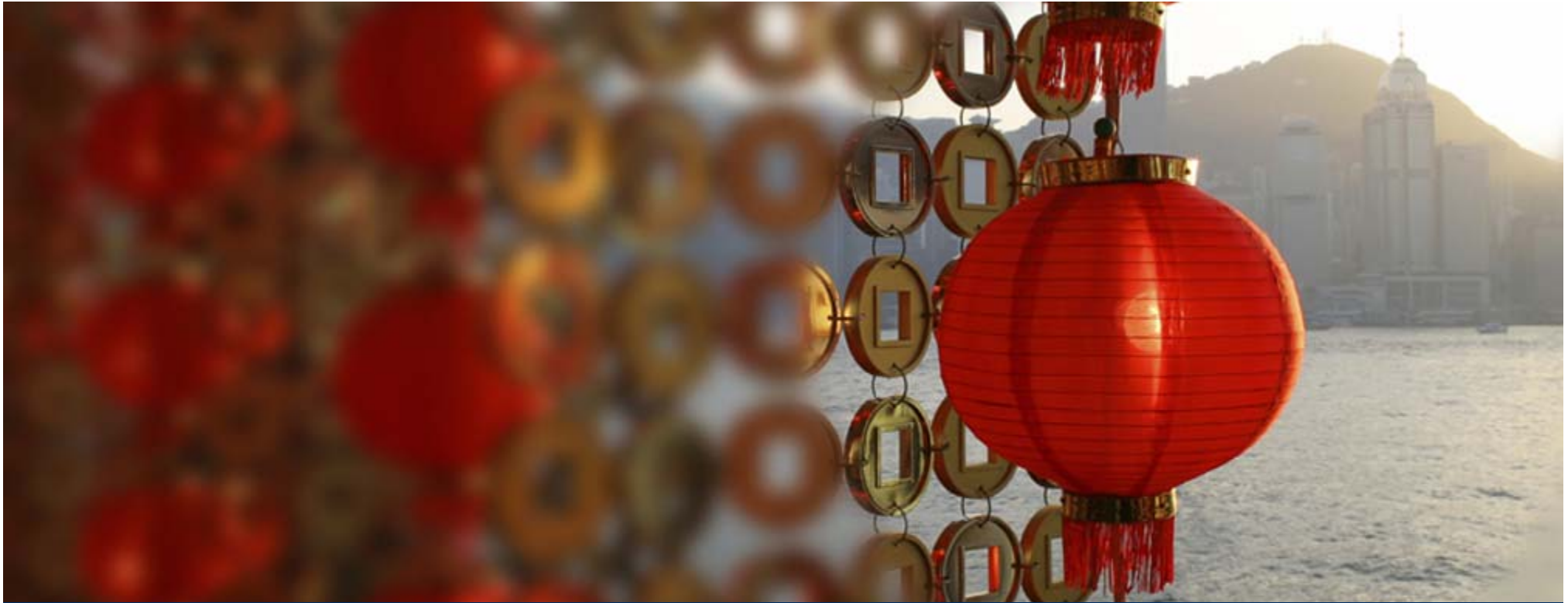
- Greatest risk to success could be lack of resources
- Needs to be reflected in objectives for
 - Leaders
 - Managers
 - Supervisors
 - HR
- Direct impact on results

Challenges

Why it is difficult in 2010

- Many organisations off a low 2009
 - What is a reasonable increase in revenue?
 - Will it continue?
- What is a reasonable period for measurement?
- Mismatch between expectations and operating budgets
 - Budgets set in 2009
 - V shaped recovery not expected
- Recruiting extra resources not easy
- Expat numbers reduced

- What is your experience of the process?



Linking pay to results

The vehicles available to you

Each should have it's own purpose

- Base pay
 - Reward for the position/person/performance
- Allowances
 - Meet specific needs
- Short term incentives
 - Rewards short term performance
 - Retention?
- Long term incentives
 - Rewards long term performance
 - Retention

Where to start dividing up too small a budget

Understanding the business priorities

- Where the profit is coming from
 - *Segment the business*
- Who delivers the profit
 - *Segment employees*
- Where they deliver it from
 - *Segment your markets*

Allocate based on value

Segments may have changed during the economic downturn



Performance drivers
*employees who
create value for the
organisation*



Performance enablers
*employees who support
value creation*



Legacy drivers
*employees who
historically created value
for the organisation,
but no longer do*

Potential outcome of segmentation

Linking pay to results

Life cycle:	Emerging market	Moderate growth	Decline/harvest
Segment:	Performance drivers	Performance enablers	Legacy performance driver
Brand:	Liability	Neutral	Asset

Opportunity	Premium+	Standard	Discount
Role of compensation elements	<ul style="list-style-type: none"> Attract 	<ul style="list-style-type: none"> Attract and retain 	<ul style="list-style-type: none"> Retain
Comparator group(s)	<ul style="list-style-type: none"> Future business competitors 	<ul style="list-style-type: none"> Current labor competitors 	<ul style="list-style-type: none"> Current business competitors
Competitive positioning (including mix)	<p>Target:</p> <ul style="list-style-type: none"> P90+ <p>Base pay:</p> <ul style="list-style-type: none"> P50 <p>STI:</p> <ul style="list-style-type: none"> P75 <p>LTI:</p> <ul style="list-style-type: none"> P90+ 	<ul style="list-style-type: none"> P50 P50 P50 P50 	<ul style="list-style-type: none"> P25 – P50 P25 P75 P25
Performance orientation	<p>Differentiation:</p> <ul style="list-style-type: none"> Less <p>Time horizon:</p> <ul style="list-style-type: none"> Long term <p>Measurement unit:</p> <ul style="list-style-type: none"> Group 	<ul style="list-style-type: none"> Standard Balanced Individual and enterprise 	<ul style="list-style-type: none"> More Short term Individual

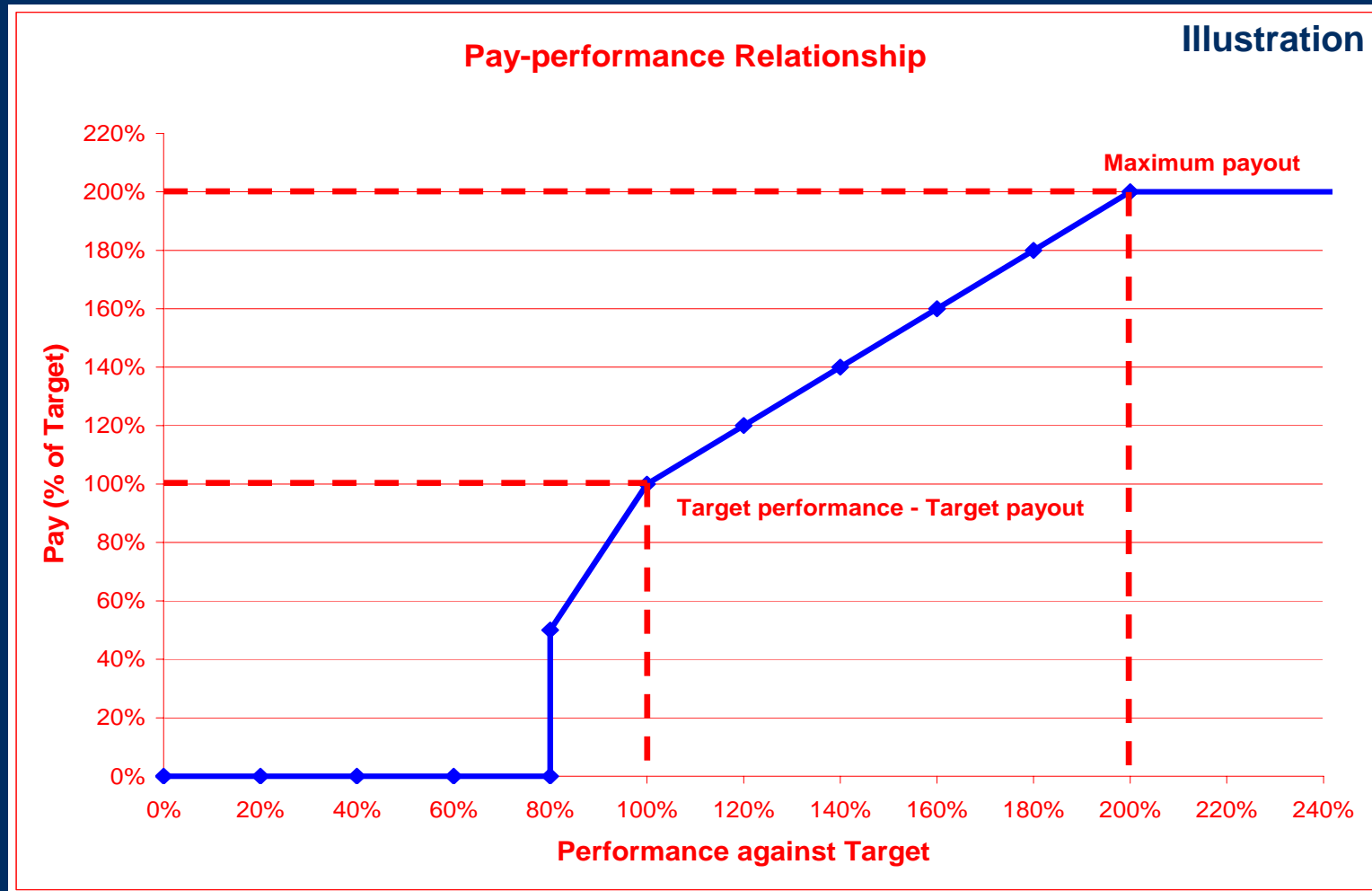
Base pay

Linking pay to results

- Base pay level critical for attraction
- No evidence it is key for retention
 - Provided it is at “competitive” level
- Base pay increases
 - Typically linked to performance
 - But what encourages development?
 - Better linked to competency development/performance?
 - Develop pipeline of scarce talent

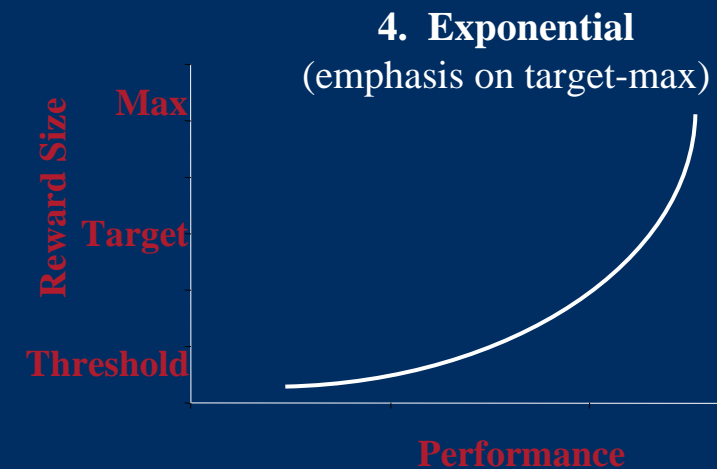
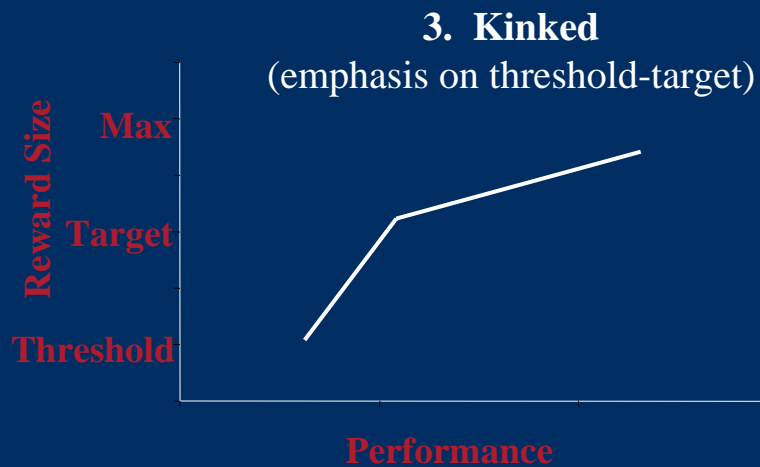
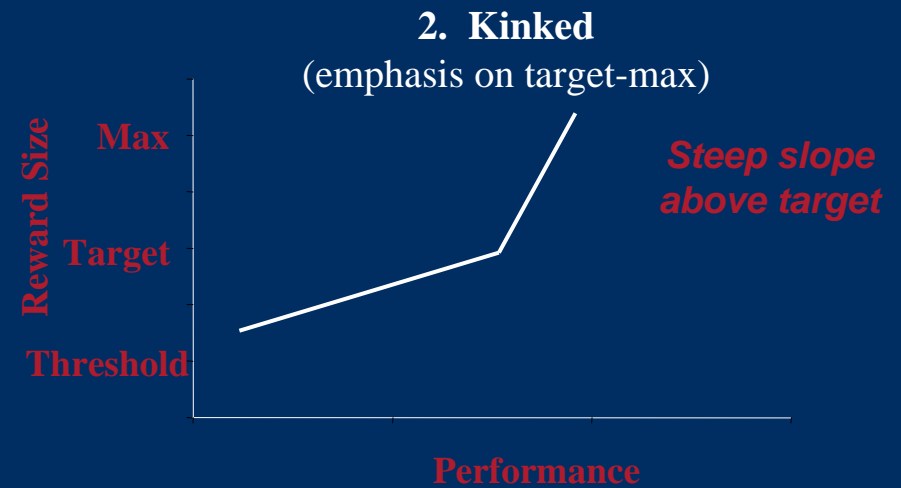
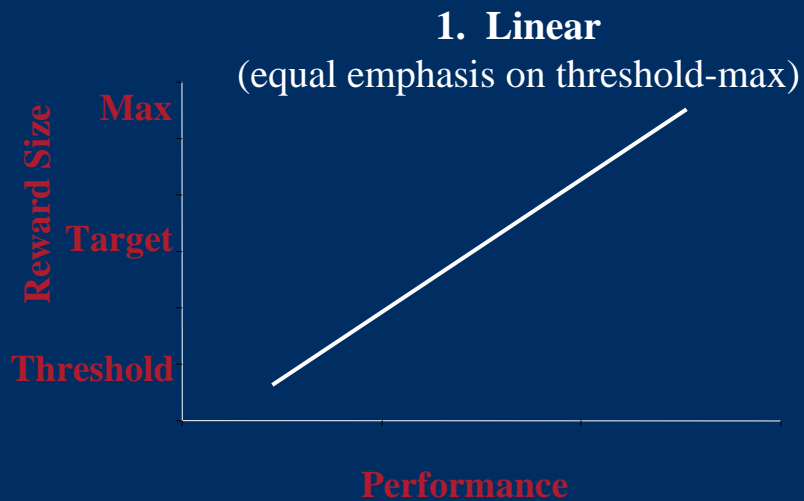
Short term incentives

Pay - performance relationship



Short term incentives

Pay for performance curve critical in growth markets



Short term incentives

Some decisions

- Design of pay for performance curve critical in growing markets
- Opportunity to
 - Maintain low operating fixed cost base
 - Link total compensation to results
 - Maintain competitive packages
- Need to
 - Communicate on total compensation
 - Ensure STI funding is consistent with payment
- Given the retention challenges
 - Should some STI be deferred?
 - Potential for more upside if 2nd good year?

Long term incentives

Different objectives better served by different vehicles

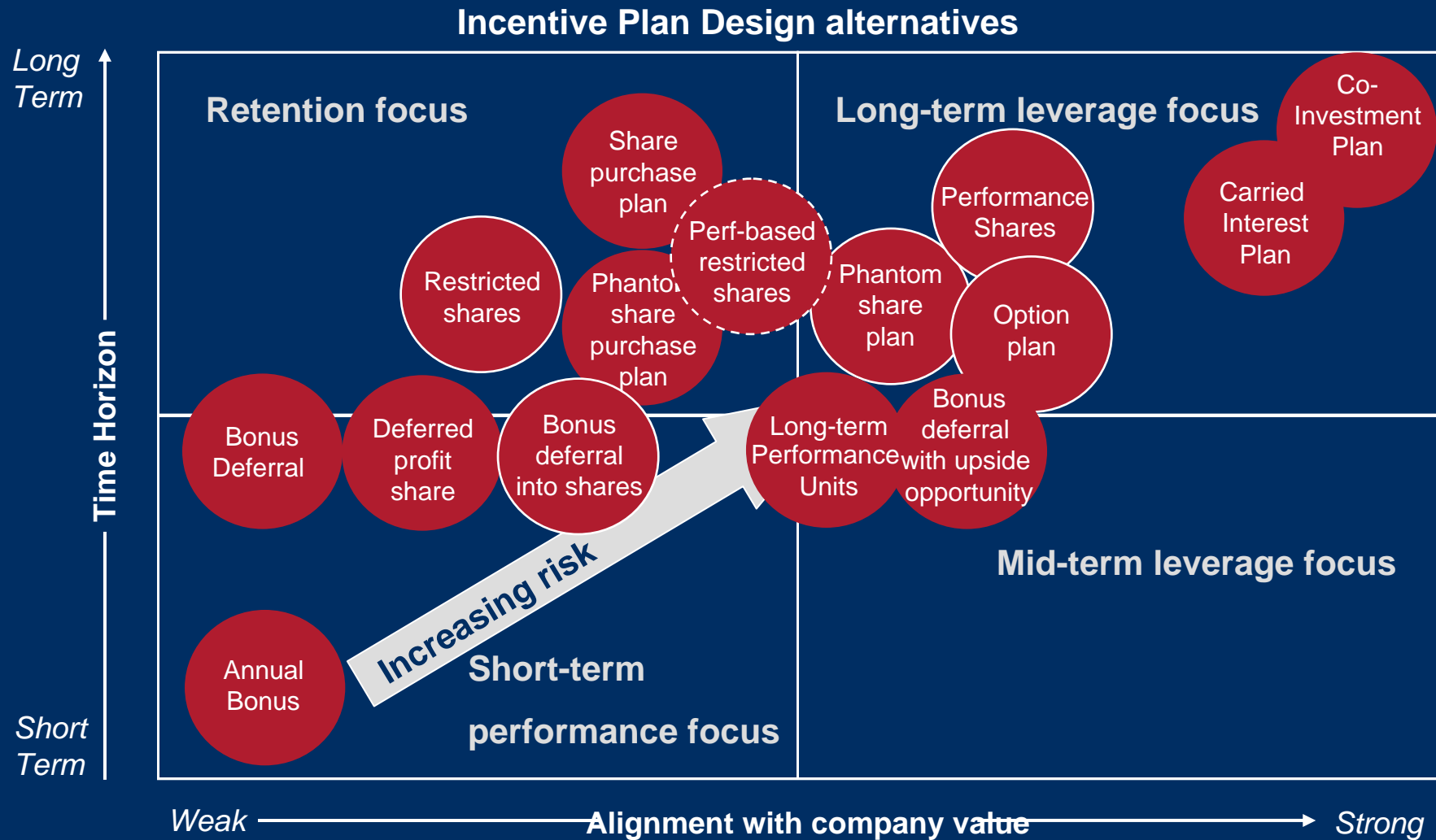
Objectives	Plain Vanilla Stock Options	Performance Shares	Plain-Vanilla Restricted Shares	Performance Cash Plan	Extend Current Option Plan
Strong performance emphasis tied to aggressive rewards					
Significantly supports retention					
Alignment with shareholder interest and corporate governance practices					
Wealth sharing with employees					
Simple and transparent					
Provide competitive and motivational compensation opportunity					

Legend:

- Fully meets the requirements
- Fulfils most of the requirements
- Partially meets the requirements
- Somewhat meets the requirements
- Does not meet the requirements

Long term incentives

Choose from a menu of design alternatives



Long term incentives

Linking pay to results

- LTI typically closely linked to performance
- Future results cannot be achieved without executives
- In developing markets, should
 - Retention be first priority?
 - Performance be second priority?
- Likely inconsistent with corporate philosophy
- But may reflect realities of market

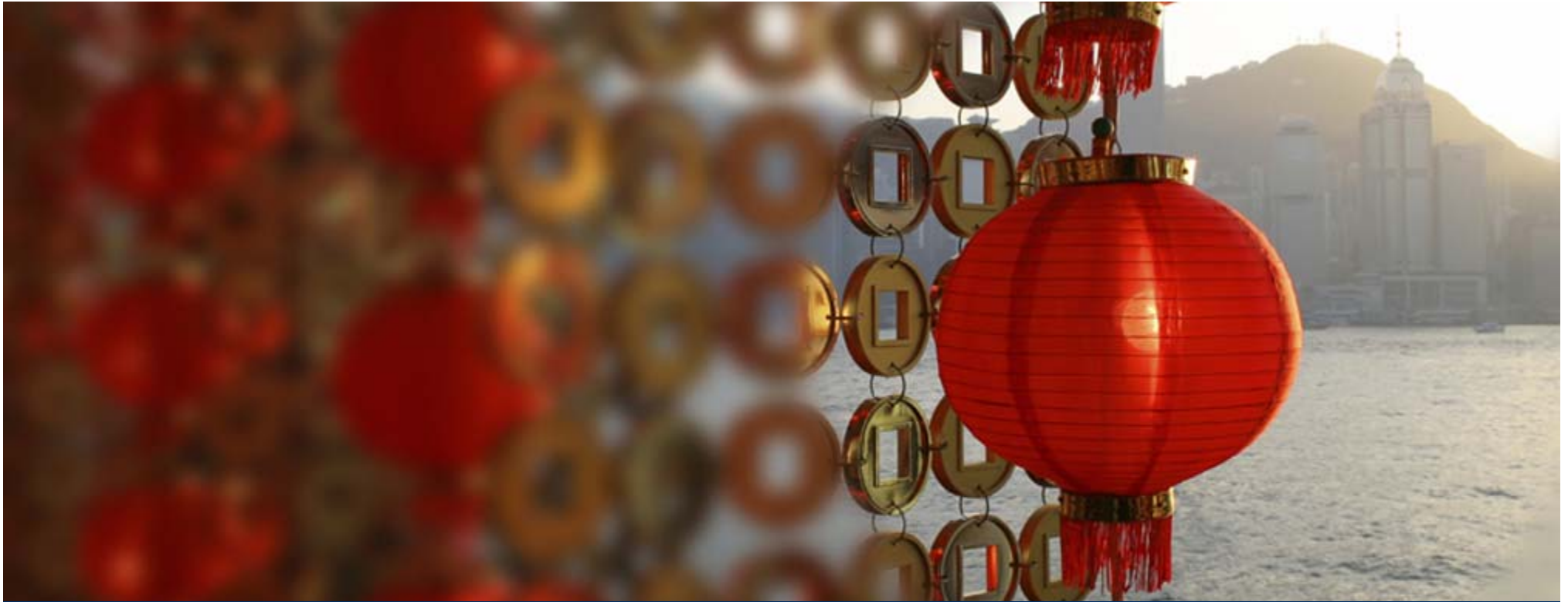
Conclusion

- 2010 will bring many opportunities
- Also challenges (but nicer ones than 2009!)
- Pay is a critical tool available to
 - Drive performance
 - Attract, motivate, engage, retain employees
 - Reward results
- A “one size fits all approach” will not work
- Need to think of
 - Your organisation’s priorities and success measures
 - Your industry and markets
 - Your people
- Achieving “best fit” can make a big difference

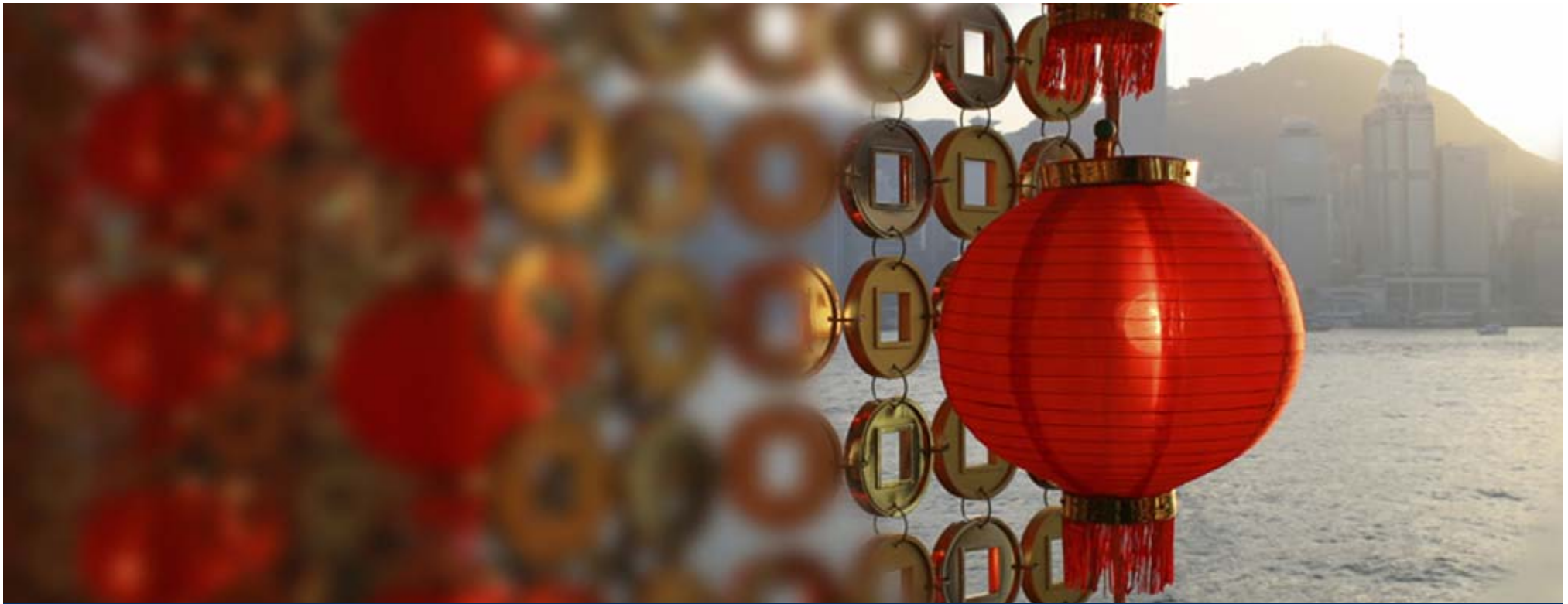
Key takeaways

What “best fit” might include

- Retaining key talent reflected in objective setting
 - Shared responsibility of all executives/managers/HR
 - Needs to have appropriate weighting in objectives
- Set modest targets for developing markets
 - Allows for over performance
 - Link to variable pay allows for competitive compensation
- Pay structures should reflect needs
 - Each element has different purpose
 - Future skills/capabilities are critical for future results
- Retention versus performance
 - Consider the deferral of excess STI
 - Simple LTI design to retain key talent



Questions



Thank you

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