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The logo for Mercer Signature Series, featuring the word 'MERCER' at the top, 'SIGNATURE' in large, bold, vertical letters, and 'SERIES' at the bottom.

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Global Compensation Strategy and Service Delivery Management Mercer Global Outsourcing Conference

www.mercer.com

Today's speakers



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In this session, we'll talk about....

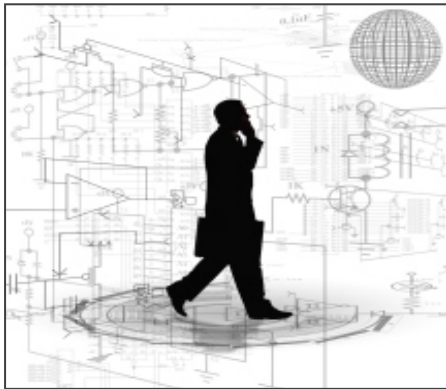
- Our clients' current concerns
- Emerging solutions – what our clients are doing
- Unique regional issues
- Learnings: what works best



A Framework for Understanding Global Trends

Compensation strategies must align with global and local business environments

Business Strategy



Human Capital Strategy



Comp Delivery Strategy



Where & Why

What is the economic and business environment?

Where are we going? Why?

How will we measure success?

What

What role do our people play in business performance?

How will we secure, manage and motivate a workforce that can execute on the business strategy?

How

What scope of services must be provided by the compensation function to deliver value and contribute to support the required business performance?

How will those services be delivered?



Global Perspective

- Top global concerns of our clients
- What they are doing

Top global business concerns

Percent respondents

77	Pace of Technological innovation
74	Increasing availability of knowledge and ability to exploit it
66	Globalization of talent markets
65	Shift of economic activity among global regions
65	Consumer growth in emerging markets; changing consumer tastes
63	Empowerment of consumers enabled by technology
57	Increased sophistication, more data-driven management techniques
57	Constraints on supply/usage of natural resources
56	Aging population in developed countries
53	Geopolitical instability

Adapted from 2008 McKinsey study: How companies act on global trends.

Top HR strategies are focused on configuring the global workforce to innovate and meet new consumer demands

Business Strategy

Top Global Business Issues

- Increased pace of innovation and innovation
- Globalization of labor market
- Shift of economic activity between regions
- Supply chain
- Aging population
- Geopolitics

Human Capital Strategy

Top HR Strategies

- Attraction/retention of talent
- Change management: execution on strategy
- Leadership capability

Source: 2008 McKinsey and Mercer HR Transformation Survey.

These HR strategies are consistent around the globe

HR Respondents: Top Human Capital Concerns

	Global	Asia	AU/NZ	EMEA	LATAM	NA
Acquiring key talent / lack of available talent	1	1	2	2		1
Driving cultural and behavioral change	2		3	1	1	3
Building leadership capability	3	3	1	3	2	2
Retaining key talent		2			3	

Source: 2008 Mercer HR Transformation Survey.

In response, global compensation concerns are becoming more strategic

- How can we ensure that our rewards practices are aligned with our **global talent management** strategy?
- What principles are companies using these days to guide compensation **governance**?
- How should we adjust compensation strategies in light of current **economic and political developments**?
- What is the right degree of global compensation policy and practices **consistency**? What factors (e.g. performance) justify differentiation?
- How can I be sure my **expatriates** are rewarded appropriately?
- How can we ensure “**pay fairness**” across demographic factors globally?
- What **benchmarking** strategies make sense from an efficiency and effectiveness perspective?

Clients report that local barriers are challenging compensation strategy execution

- The complexity of **legal, social, and cultural issues** is the most frequently cited barrier to implementing global programs
- However, discussions with organizations who have successfully implemented programs globally, indicate that it is the **legal and regulatory** hurdles that are most challenging
- **Resources** are also a key barrier. Few organizations have compensation professionals outside of their regional headquarters or larger countries

Top Barriers	Number of Companies	Percent of Total
Complexity of Legal, Social and Cultural Issues Between Countries	91	26%
Resources / Time to Develop and Implement	73	21%
Absence of Global HRIS	54	15%
Absence of Global Comp Strategy	39	11%
Resistance at Local Level to Change	38	11%
Experience / Skills of Local HR Staff	23	7%
Resistance at Line of Business Level to Change	19	5%
Other	10	3%
Lack of Cost Savings	4	1%

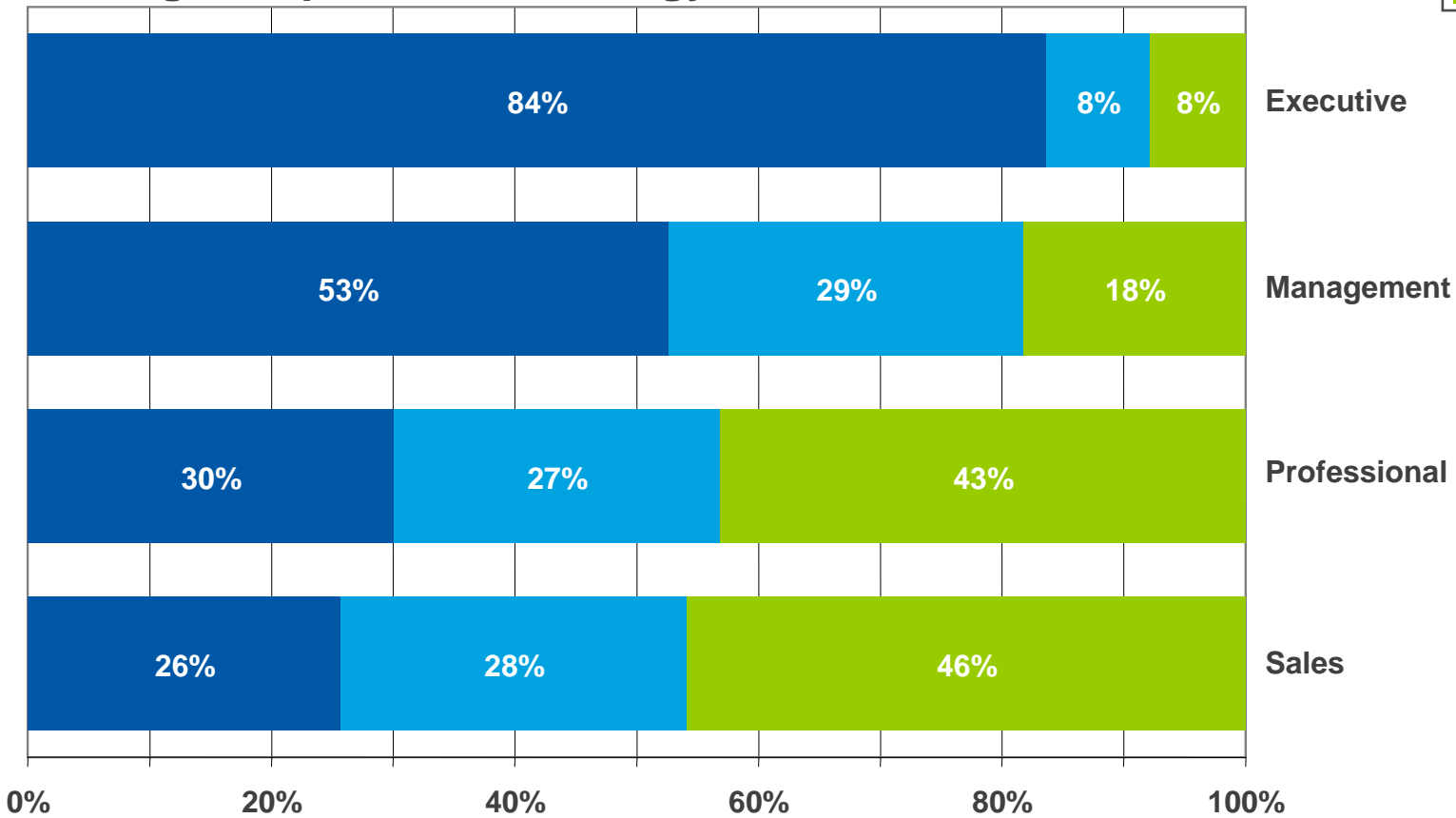
Source: Mercer 2007 Global Compensation Strategy and Administration Survey.

Solutions are focused on strategic standardization of policies, segmentation of programs, and sophisticated analytics

- Addressing globalization of workforce through the development of common global total rewards philosophies
- Competing more effectively in the war for talent through targeted rewards strategies
 - Market segmentation of the workforce and differentiated reward packages for each segment
 - Pay for performance improved through better relative measures of workforce contribution and establishment of supplemental pools for high performers; increasing the use of performance-based long-term plans
 - Total reward awareness enabled by improved technology
- Using workforce analytics to understand the ROI of reward strategies and adjust design
- Developing nontraditional expatriate workforce policies to encourage cross-border mobility

Dual approach: global strategy for executives ... local strategy for staff

Setting Compensation Strategy



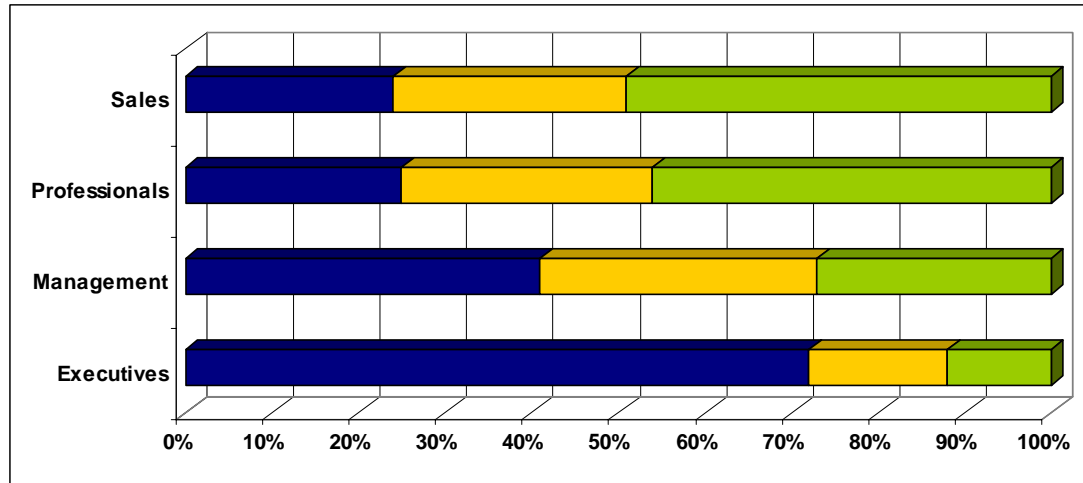
Source: Mercer 2007 Global Compensation Strategy and Administration Survey.

Our clients are also focused on creating service delivery models for their global compensation functions

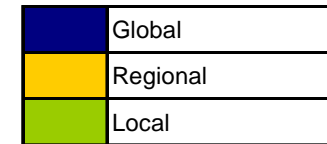
- Organizations are looking for ways to streamline administration of compensation programs – a key element to this is to the extent to which program administration can become more automated and centralized.
- Certain programs tend to be administered centrally regardless of employee group – long term incentives and expatriate compensation, most notably
- For other programs, the location of administration depends on employee group as well as the nature of the design (e.g., global, regional, or local)
 - For executives and managers, programs tend to be administered centrally by global human resources or global compensation
 - Programs for professional and sales employees are more likely to be administered at a local level – often through local HR as opposed to local compensation staff

Delivery models differ when looking at strategy versus administration

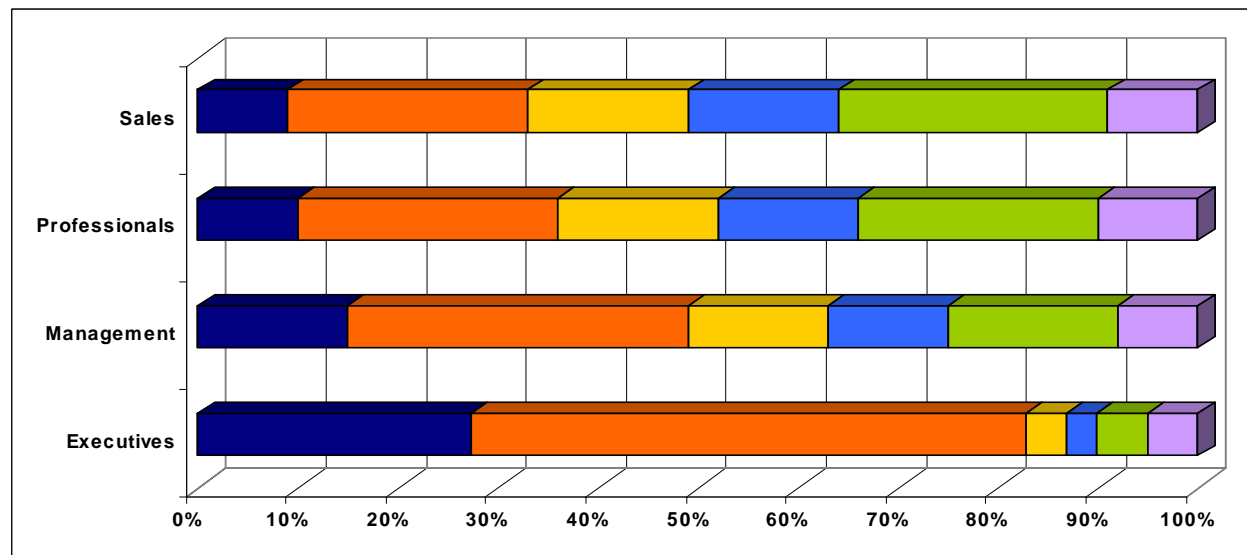
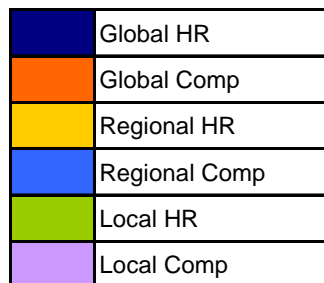
An example – salary increase practices



Strategy



Administration



Source: Mercer 2007 Global Compensation Strategy and Administration Survey.

Organizations continue to look at opportunities for increased centralization and outsourcing

- Top compensation management activities organizations would like to further centralize
 - Job code systems
 - Market pricing standards
 - Structure management
- Top compensation management activities being considered for outsourcing
 - Market pricing standards
 - Expatriate compensation
 - Structure management

Source: Mercer 2007 Global Compensation Strategy and Administration Survey.

Our clients told us they have many reasons for pursuing centralization

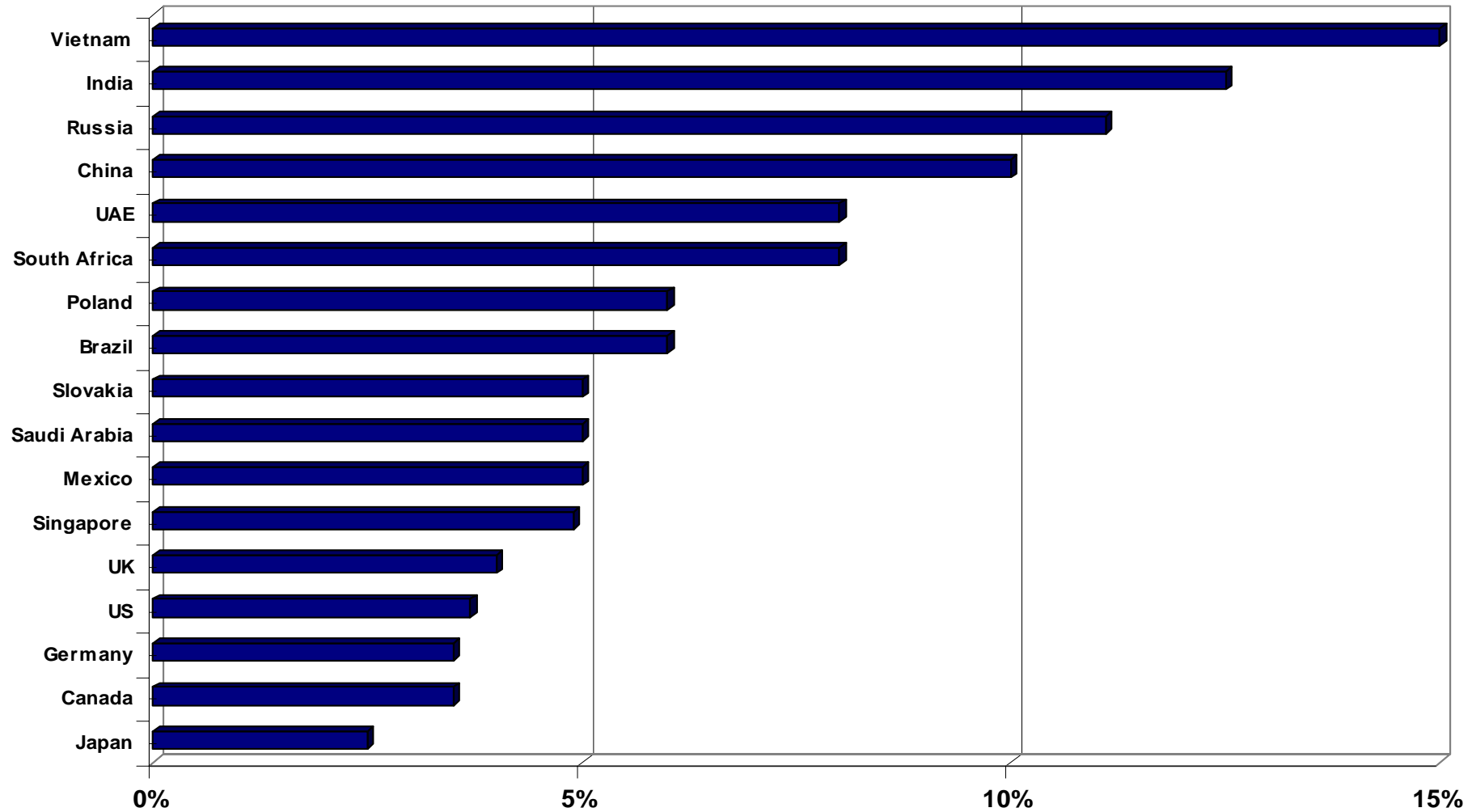
Top Reasons for Centralization	Number of Companies	Percent of Total
Support Global Business Model	62	22%
Enforce Adoption of Organization's Comp Strategy	58	21%
Co-locate Compensation Expertise	45	16%
Provide Tighter Governance	32	11%
Improve Professionalism / Quality of Comp Function	31	11%
Managing Costs	28	10%
Maximize Impact of Technology / Process Improvements	17	6%
Managing Budgets	5	2%
Other	3	1%

Source: Mercer 2007 Global Compensation Strategy and Administration Survey.



North America

2009 pay increase projections reflect relative growth in economies (Professionals – non sales jobs)



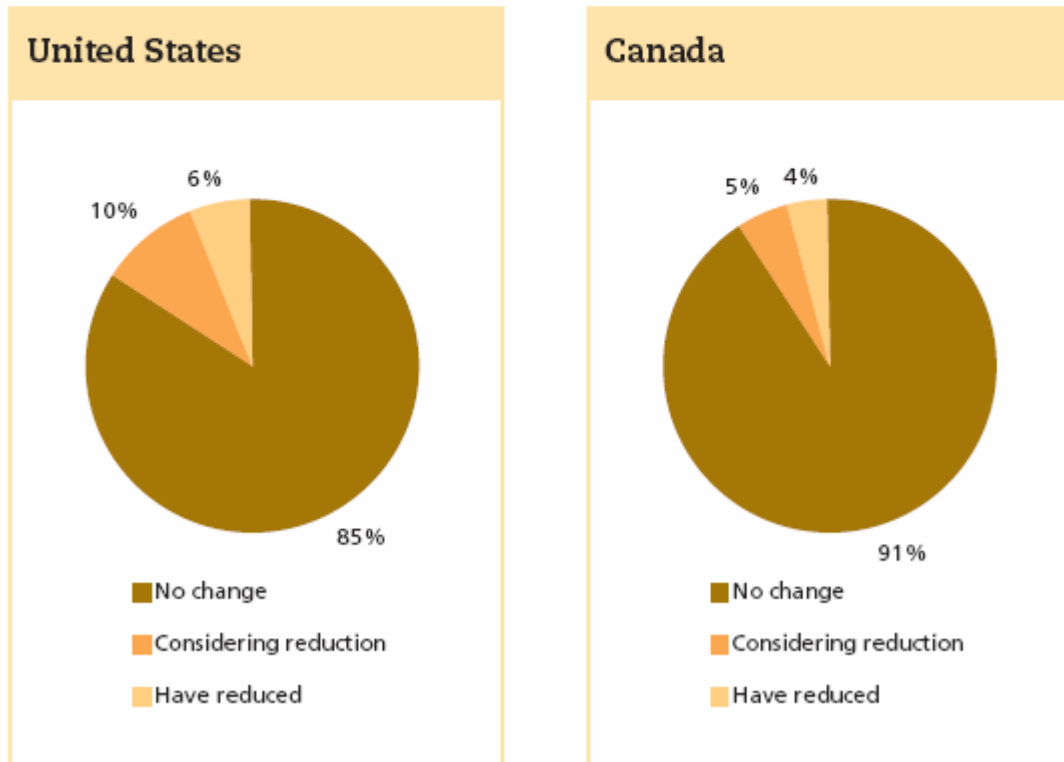
Source: Mercer 2009 Global Compensation Planning Report.

The recession will continue in the foreseeable future in the U.S. and Canada

- In the US, the economy continues to suffer
 - In recent months, the unemployment rate rose to 5.5 percent from 5 percent, the largest monthly spike in more than two decades
 - The Labor Department reports that the economy lost 49,000 jobs in May, for a fifth month of decline
 - Economists are not predicting an upturn in the near future
- The Canadian economy is impacted by events in the U.S.
 - The weakness in the U.S. economy has a slow-growth effect on the Canadian economy, particularly manufacturers, exporters and the auto sector
 - The unemployment rate has remained close to 6.1% since the beginning of the year

But companies appear to be taking the long-term perspective on salary planning

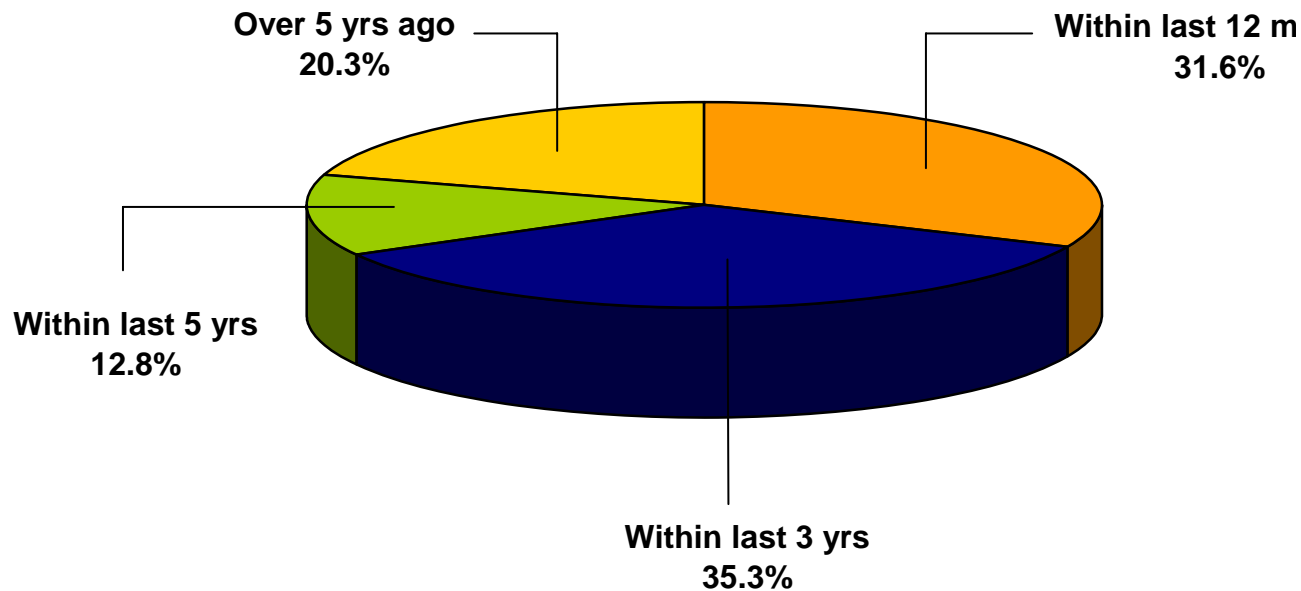
Did you consider or institute budget changes since the 4th quarter?



Source: 2008 Mercer Human capital management strategy for slow-growth times.

Organizations have made significant changes in compensation strategies in the past few years and will continue to do so

Last significant change to compensation program



What's next (12 – 24 Months)

- Changing grade structures
- Using more market analysis
- Improving HR technology
- Completing succession planning
- Providing more compensation communication
- Improving pay for performance

Source: 2008 North American Compensation Management Survey.

We recently completed a survey of North America-based organizations regarding their current comp management practices

- Almost 75% of companies have a dedicated compensation staff in North America; this varies significantly from how we see compensation functions staffed outside of North America
- Top challenges reported by these companies in delivering on their compensation strategy were:
 - lack of resources / headcount
 - not having enough influence in the organization
 - not having the necessary technology
- Even though organizations feel they don't have enough comp staff, more than 65% of surveyed organizations planned to maintain their current staffing levels in the future
- Almost 70% of the respondents reported they review the comp processes annually for improvement

We also asked them about their plans for the next 12 months

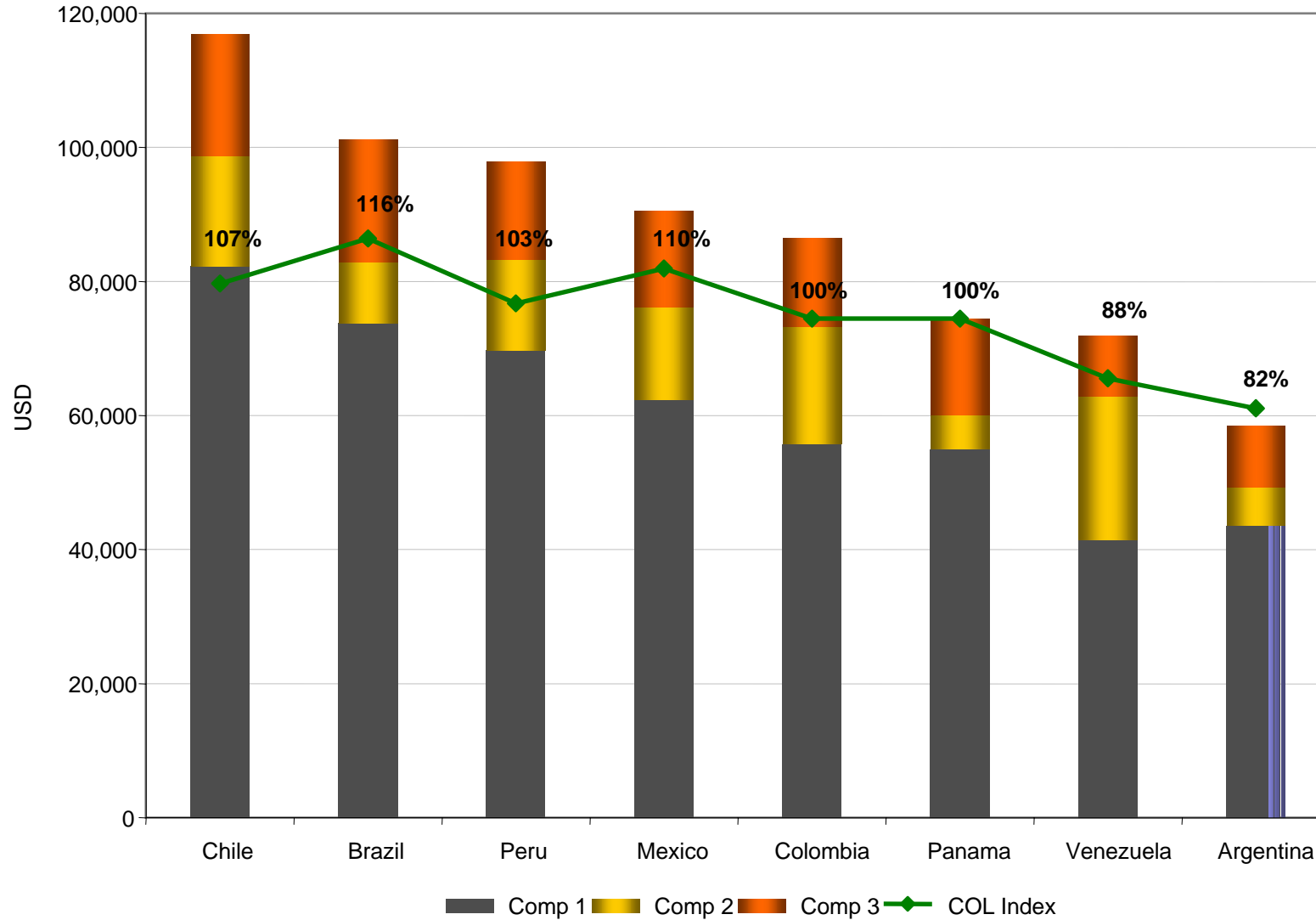
- Top three activities our clients tell us they will be focusing on in 2009
 - revising salary grades and structures
 - completing more market analysis
 - improving technology
- When asked what change they would make in how compensation is managed, if they could only make one, our clients most commonly reported the following actions:
 - adjusting market target competitive levels
 - obtaining more staff and resources
 - achieving more global cohesion and consistency
 - automating processes through technology
 - moving to more pay for performance compensation structures



Latin America

Chile is top; Argentina trails in purchasing power

Managers Gross Pay (USD) vs. Cost of Living- IPE 54 to 57



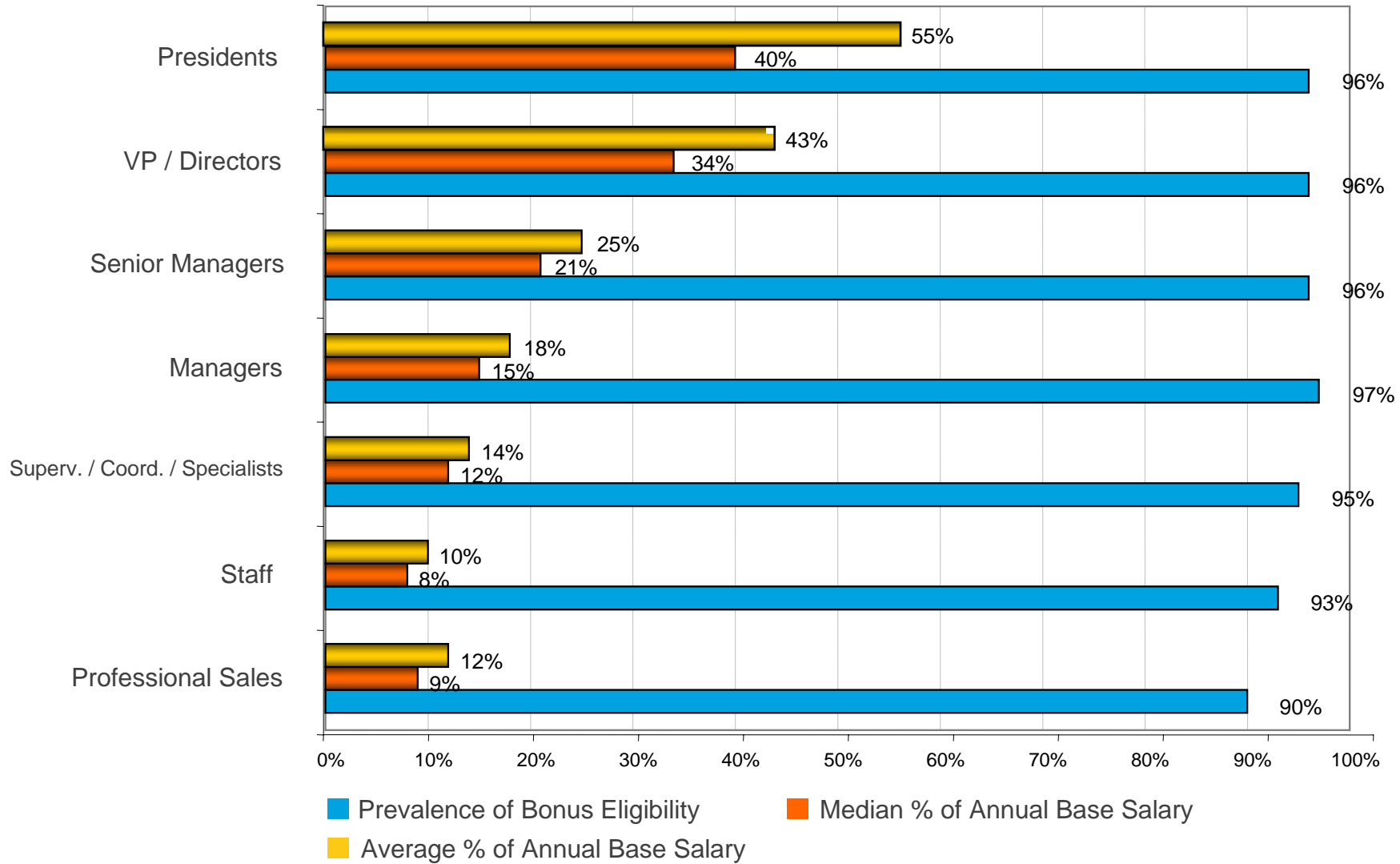
2009 salary increases are reflecting collective bargaining wins

- Brazil has seen Collective Bargaining negotiations during 2008 in the 5-6% range, (some even close to 7%) and Mexico in the 4.5% neighborhood. Argentina is coping with 20% and Venezuela in the neighborhood of 30%
- CPI is increasing in all countries. Salary increases and Collective Bargaining negotiations for 2009 might be higher than currently expected.

Country	Salaried Personnel	Blue Collar Personnel
Brazil	5.5% – 6.8%	5.0% – 7.0%
Mexico	4.8% – 5.5%	4.5% – 5.0%
Chile	7.8% – 8.9%	
Peru	4.5% - 5.0%	
Colombia	5.5% – 6.5%	7.5% (CPI +1%)
Venezuela	20.0% - 23.5%	30%
Ecuador	8.0% – 9.5%	
Argentina	17.0% – 19.5%	20.0%

Variable pay across the region is being extended to lower levels

Bonus Eligibility – Brazil



■ Compensation management practices in Latin America vary by company size

- Small companies with less than 1,000 employees tend not to have a team dedicated full time to compensation and benefits
- Larger companies will more frequently have a separate compensation function
- The compensation staff activities are mainly to
 - manage the salary increase process and incentive compensation plans
 - participate in surveys and analyze competitive information
- Typically staffing models are 1 analyst for every 1,000 employees supported



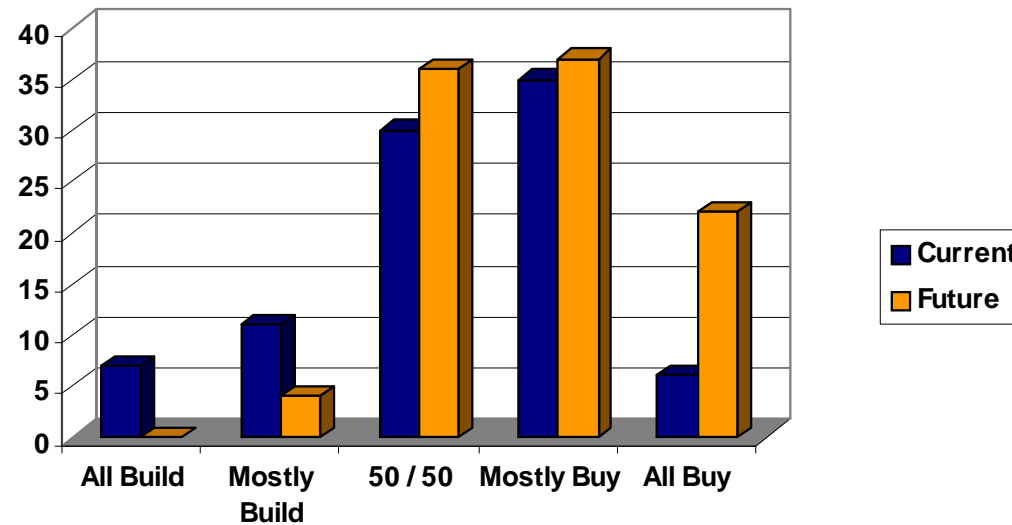
EMEA

The Western European economy is beginning to slow down after a period of resilience to U.S. recession

- European gross domestic product contracted in the second quarter, the first time since the early 1990's that the GDP has fallen overall in the 15 Euro-zone countries
- Rising commodity prices, European housing downturns, and downturn in the banking sector are adversely impacting economies
- Retail sales in the UK are falling and manufacturing output is down versus prior year. Inflation is predicted to be high
- European exporters have suffered from the high Euro
- Organizations are retracting

Western European organizations are competing for scarce talent with increasingly scarce dollars

- Despite the priority that businesses place on individual performance, organizations have difficulty in rewarding performance whilst wage inflation is low
- The competition for talent is intensified by an increased need to 'buy' rather than develop critical skills

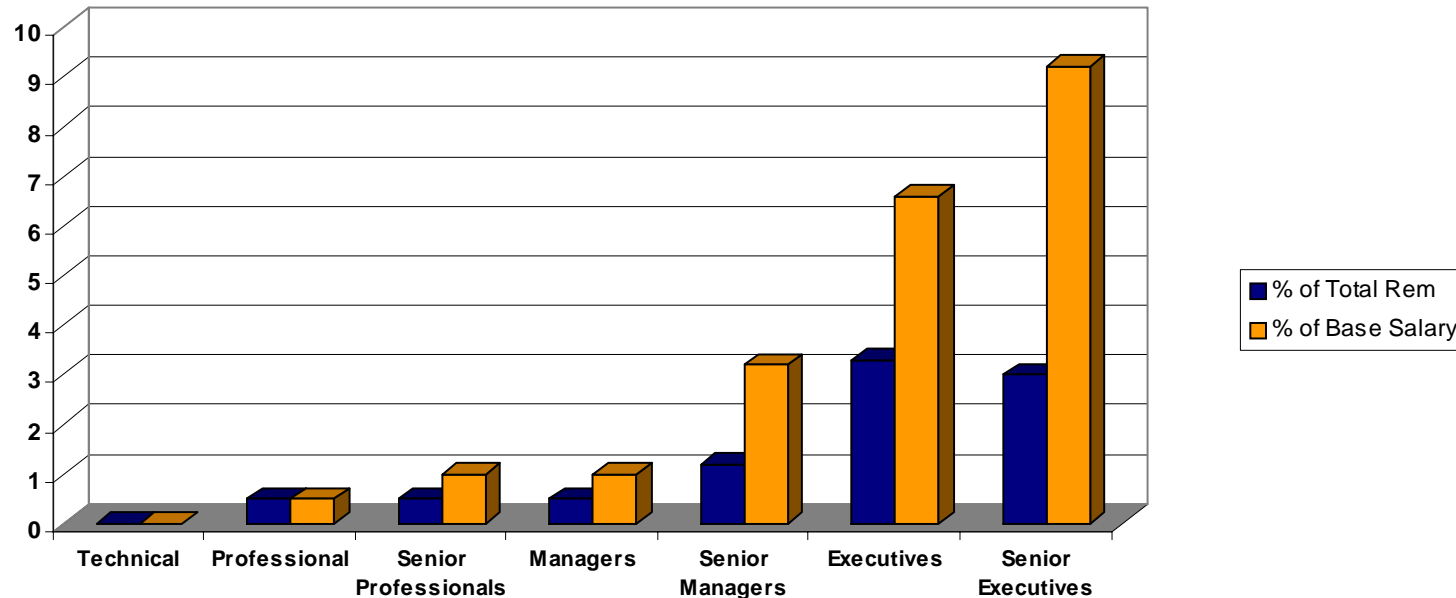


- Most organizations feel under pressure to improve their pay positioning and are enhancing the basis on which they benchmark jobs

Source: Mercer 2007 Global Compensation Strategy and Administration Survey / Mercer 2007 EMEA Compensation Mgt Survey.

Causing increasing leverage at lower levels, while enhancing communication

- There is movement from fixed to variable pay at all but the most junior levels



- There is new investment in compensation communication, with less than 20% of European organizations reporting that employees understand the basis on which compensation decisions are made
- Line management is key, but HR does not believe that their managers are good advocates of compensation policies

Source: Mercer 2007 Global Compensation Strategy and Administration Survey.

And modifying variable plans to strengthen accountability and improve labor market intelligence

	Global	Europe	Areas of Focus <i>(as % of those making changes)</i>
Long-Term Incentives	73%	64%	<ul style="list-style-type: none"> • 71% modifying or adding a vehicle • 71% increasing grant levels • 57% changing performance measures
Short-Term Incentives	37%	27%	<ul style="list-style-type: none"> • 67% changing STI eligibility • 67% changing performance measures • 33% increasing focus on individual and business unit performance
Compensation Philosophy	15%	55%	<ul style="list-style-type: none"> • 67% changing peer group • 67% changing target market positioning

Source: 2008 Emerging Global Executive Remuneration Trends.

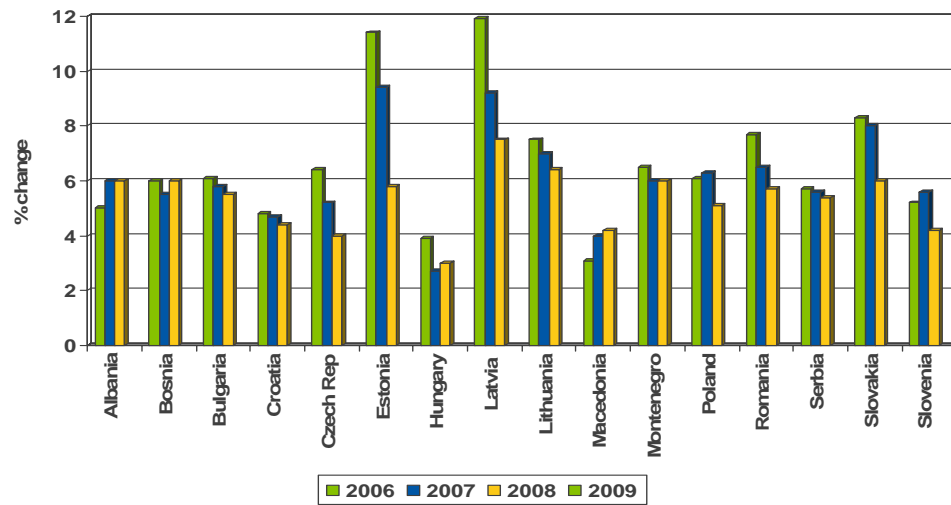
Eastern Europe is a unique market

- Population of over 300 million
- Wide variety of economies, cultures, political systems and labour markets
- From Estonians to Turks; Ukrainians to Bosnians
- Region characterised by:
 - *Innovative approaches (e.g. flat tax);*
 - *Large inward investment (e.g. Slovakia's car industry)*
 - *Qualified and mobile workforce*
 - *Fast growing economies*

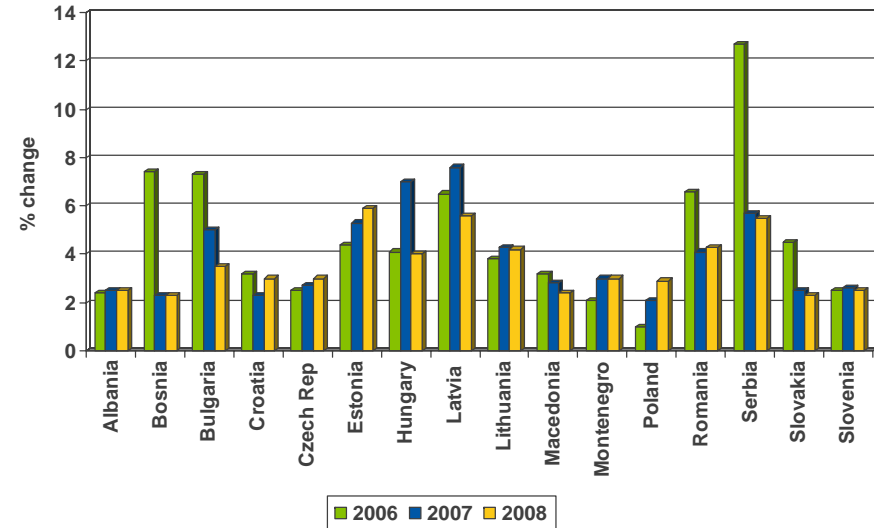


The economic environment has some clear leaders

Economic growth (% market change)



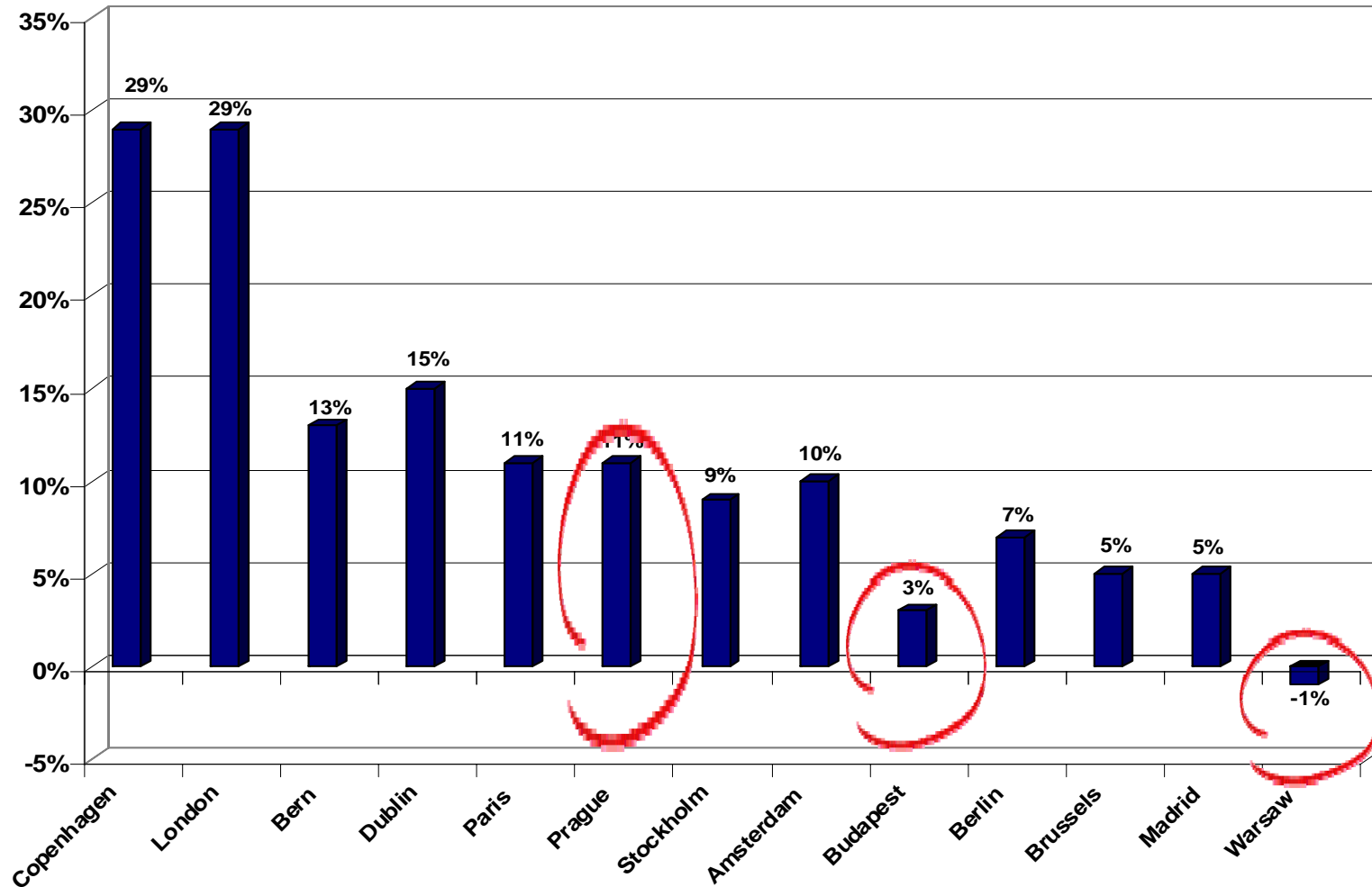
Consumer price inflation (% change)



Source: Economist Intelligence Unit Country Forecast, Eastern Europe and the former Soviet Union, June 2007.

Cost of living differentials are favorable in Eastern Europe compared to the West

Cost-of-living differences compared to New York City (%)



Source: Mercer Cost-of-Living Survey Report, September 2007.

Rewards are a top business priority in the Eastern European region

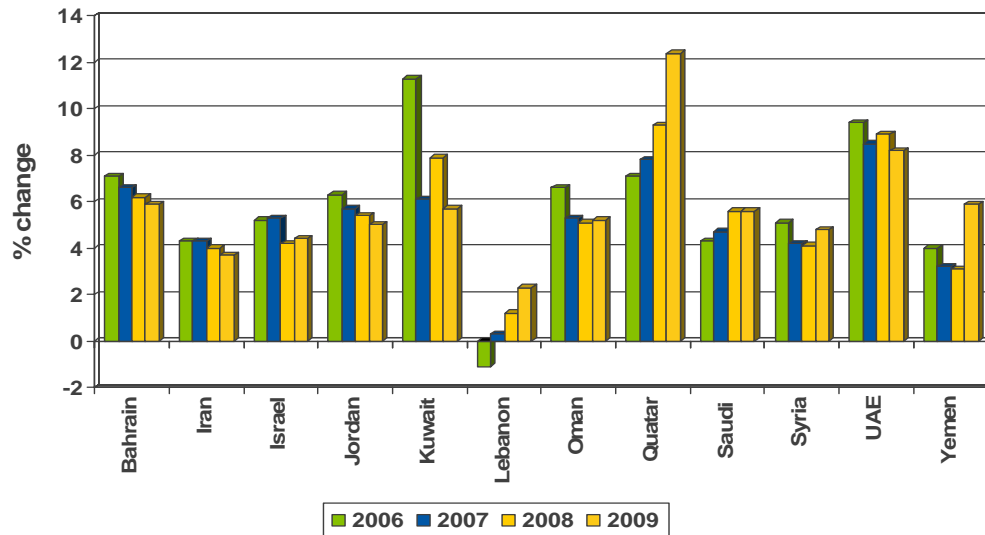
- Compensation in main cities much higher than elsewhere and multi-national companies paying higher than domestic employers
- Due to the famous brain drain – emigration to Western Europe – these differences are disappearing
- Scarce recourses becoming more expensive for many employers (production employees; construction, food and financial sectors)
- Employment competition very high and retention big issue
- Domestic companies want to improve how they manage their businesses so they attract experienced staff from multi-national companies
- Salary increases are the #1 topic on the agenda for companies with strong trade unions
- There is poor communication about benefits as well as pay and career progression – an opportunity for compensation professionals

Implications for establishing operations in Eastern Europe

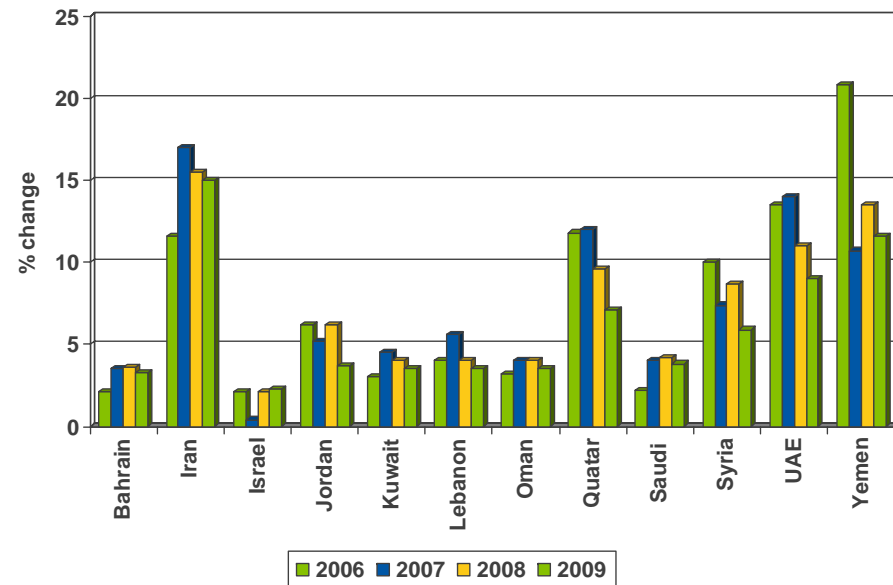
- Cost of labour still much less than Western Europe, but market experiencing “growing pains” – “regional” variations
- There are significant increases in reward costs for quality people in some positions
 - Difficult to recruit
 - Difficult to retain
 - More costly than you might expect
- Shared services centres soaking up available labour
- Customer service mentality not always there so establishing in service industry (banking, etc) can be difficult
- Universities producing a lot of graduates, but many attracted to UK, Ireland, etc for experience, more money and English language.
 - How many are now returning?

Most Middle East regions are enjoying growth; but some are coping with significant inflation

Economic growth (% market change; exchange rate weights)



Consumer price inflation (% change)



Source: Economist Intelligence Unit Country Forecast, Middle East and North Africa Regional Overview, Dec 2007.
 Note: Note: Iraq is not included in the table.

HR landscape in the Middle East...

- Multi-cultural work environment as nationals more in government sector
- Unique mix of “old” and “new” HR – from traditional admin expert role to strategic business partner
- No trade unions or collective bargaining, more of an employers market
- Compensation largely dependent on geographic origin, gender, marital status (local and government companies)
- Pay increases and/or progressions not entirely performance based
- Loyalty considered a strong factor, low employee turnover – 3-5% average
- Less mobility due to restrictions by employer, but this being slowly relaxed

Middle East compensation practices

- Underlying principle is “capacity to pay”; market benchmarking gaining momentum
- Cost to company concept emerging
- Difficult to get reliable market data
- Significant percentage of fixed cost in benefits (housing, vacation travel, schooling assistance, medical, furnishing grant, relocation etc)
- No pension or social security cover for expats
- Percentage of performance pay is low
- No minimum wage legislation and adjudications or arbitrations are scarce
- No uniform industry standards in wage determination

EMEA-based organizations are becoming increasingly more interested in compensation management

- Not only in how **much** to pay, but also in **how** to pay more effectively
- A number of factors, such as
 - increasing competition for compensation talent,
 - leaner salary budgets,
 - increasing centralization of the compensation function,
 - improving technology and
 - growing interest in the role of communications in compensation delivery

have led practitioners to think more about the role of compensation management.

- Like many other functions within HR, the compensation function is looking to increase the sophistication of its processes to become an important contributor to business success.

Source: Mercer 2007 EMEA Compensation Management Survey.

A 2007 Mercer survey of European organizations identified key trends in current service delivery models

- **Compensation services are most commonly delivered by HR generalists**
 - Reflection of legacy structures where compensation management is regarded as a part-time responsibility
- **Evolving partnership models in compensation delivery**
 - Center of Excellence for design and development
 - HR generalists acting as the liaison with the business partners
 - Compensation service centers managing transactional work
- **Governance becoming more fully centralized**
 - Establish greater control, remove duplicate programmes and practices and consolidate activities for greater efficiencies
- **Low resource levels**
 - The compensation function in Europe tends to be the leanest of the HR functions, despite the fact that compensation management is usually one of the top three demands on HR time
- **Spreadsheets still the most commonly used compensation technology**
 - Using spreadsheets both for analytical and modelling activities, such as market pricing and pay scale work, and for collecting merit and salary increase recommendations from managers

Source: Mercer 2007 EMEA Compensation Management Survey.



And showed what organizations are considering for the future

- **Increased governance** to better manage the compensation function, with an emphasis on the centralisation of the compensation function.
- **Increased technological** sophistication to enable deeper insights from market data and better targeting of budgets.
- **Alternative ways to resource and source the compensation function** given the shortage of talent with deep compensation skills and experience and the growth of outsourcing, co-sourcing, and third party options.
- **Improved communication** with employees and managers to improve employee satisfaction and enable managers to be advocates for compensation policies.

Source: Mercer 2007 EMEA Compensation Management Survey.

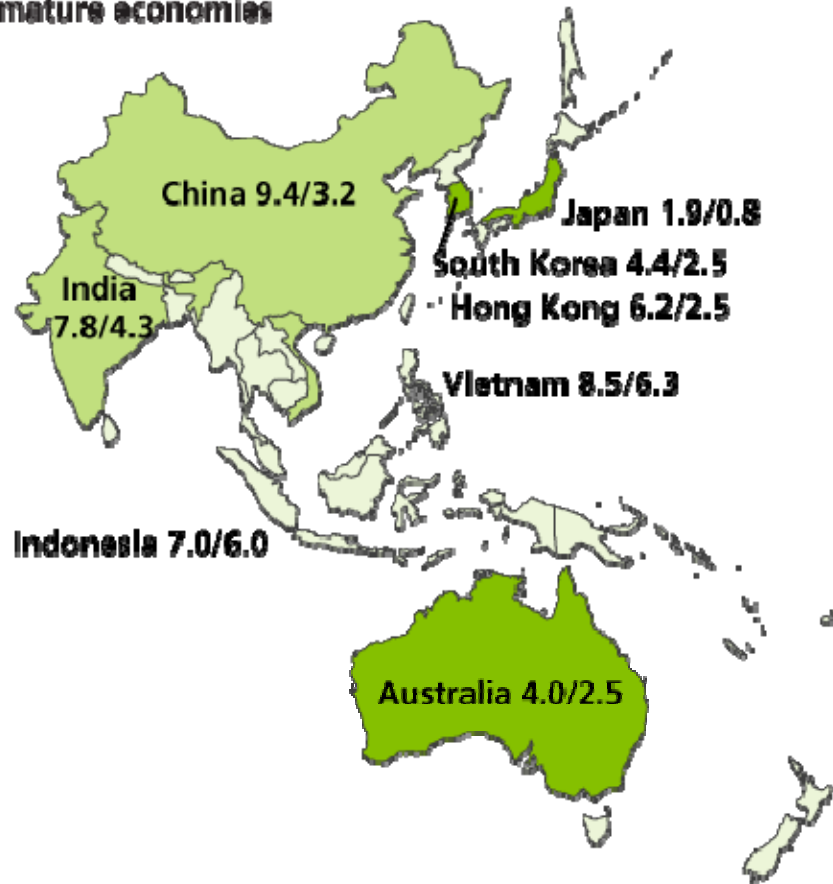


Asia Pacific

Asia Pacific economic overview is a vast and varied canvas

Projected GDP/projected inflation

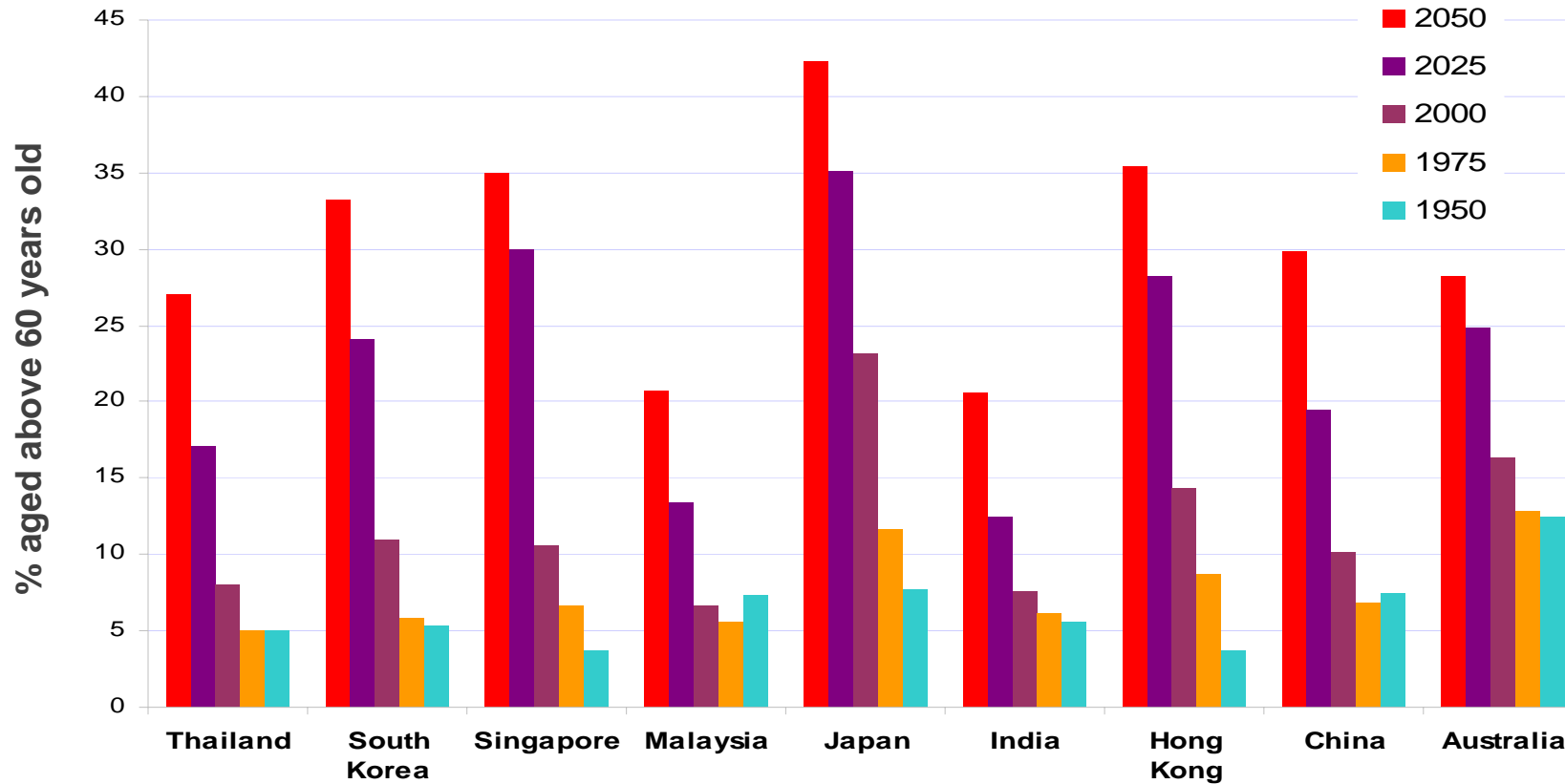
- Emerging economies
- More mature economies



Country	2008 projected GDP	2008 projected inflation
Australia	4.0	2.5
China	9.4	3.2
Hong Kong	6.2	2.5
India	7.8	4.3
Indonesia	7.0	6.0
Japan	1.9	0.8
South Korea	4.4	2.5
Vietnam	8.5	6.3

■ Mature economy ■ Emerging economy

Asian economies vary in their demographic profile



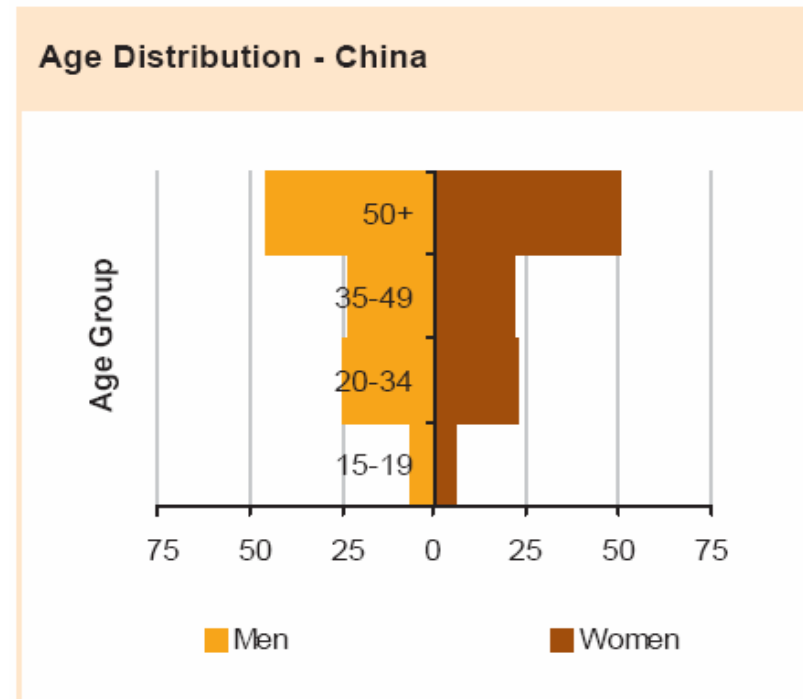
Source: World Population, Aging Population Division, UN, 2002.



Zooming In – China and India

China demographics

- Annual population growth has decreased from 0.9% to 0.6%
- 40% of local population is living in urban areas
- Ratio of population over age of 50 is higher than younger age groups
- **China will become old before it becomes rich**



Source: International Labour Organization

Labor demand vs. supply

Demand

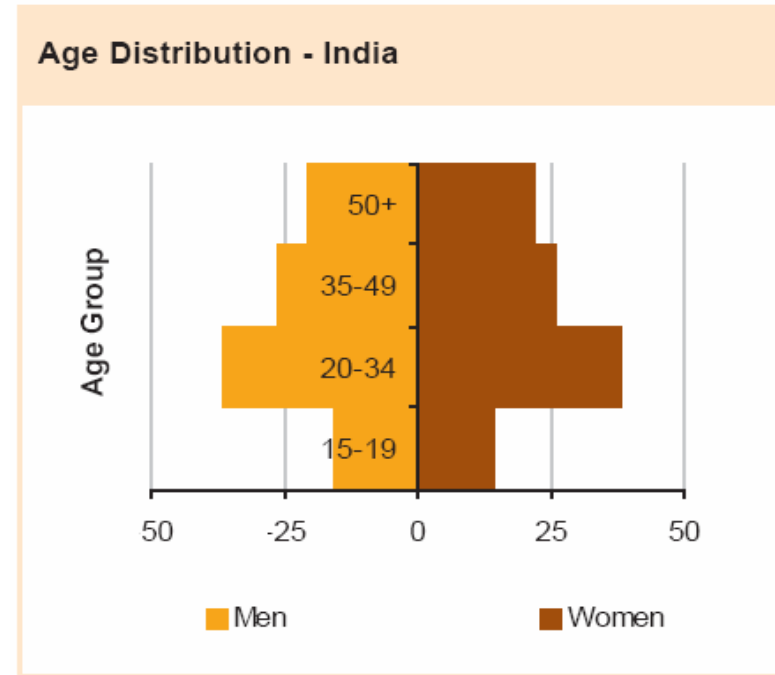
- Aggressive expansion and new market entrants
...“go west”
- Improved technical capability
- Leadership void
...fierce competition/poaching
- Skyrocketing pay
... productivity not commensurate

Supply

- Supply not in pace with market demand
...Shortage of experienced “talent”
...but, surplus of labor and fresh graduates
- Job change socially acceptable
- Distorted career progression; rampant title inflation
- PRC nationals targeted for key jobs

India demographics

- Annual population growth has decreased from 1.7% to 1.37%
- 30% of local population is living in urban areas
- Over 60% of India's current working population is in the 15-59 age group
- **One quarter of the world's youth live in India**
- **54% of the Indian population is less than 25 years of age**



Source: International Labour Organization and www.childrenatbank.org.

What to expect for the future in India

Operating Challenges

- Attrition rates will remain high
- Percentage compensation increases will stay in double-digits in short-mid term
- Internal pay equity will become history – sharper compensation differentials based on performance and person will become the order of the day
- Boards and compensation committees increasingly will become involved in compensation decisions
- Labour demand and supply gap
 - Of the total 3 million graduates produced only 25% are employable across industries
 - Only 25% of Indian engineering graduates were employable by MNCs
 - New industries like retail, telecomm, financial lack talent pool and face difficulty in drawing the right candidate

What works in Asia Pacific

Holistic approach to rewards

- Pay is still important, but...
 - Companies are looking for creative alternatives in pay structure
 - Use of bonuses for targeted populations
 - Putting more pay at risk – differentiation of performance
 - Using equity for certain positions
- Benefits can be a differentiator...
 - Increasing interest in flexible benefits, flex time, and work/life balance
 - Increased interest in supplemental benefits (including enterprise annuity)

What works in Asia Pacific

Comprehensive view of careers

- Careers and recognition are critical to talent equation
 - Competitive and innovative rewards and programs
 - Increased focus on learning, development, employer brand and staff welfare
- Global workforce preparation and management
 - Cross-cultural training and development
 - Learning for global mindset, cultural agility, relationship management, managing remote and/or virtual teams

Emerging trends in Asia Pacific

“Total Rewards” that deliver for your talent

COMPENSATION	BENEFITS	CAREERS
<ul style="list-style-type: none"> Base pay Short-term incentives Long-term incentives Equity-based plans Recognition 	<ul style="list-style-type: none"> Health and Group Enterprise Annuity Supplemental Pension Savings/Housing Plan Work/Life programs Perquisites 	<ul style="list-style-type: none"> Career paths/ Succession plans Training and development Mobility Stretch assignments Career incentives

Communication & Engagement



Compensation management practices in Asia Pacific vary by type of organization

- Local organizations
 - manage with low technology administration
 - Have mostly administrative compensation functions
 - Primarily focus on benchmarking and researching what other organizations are doing
- Foreign multi-national companies with operations in Asia
 - tend to be more structured in their grading and organisation structures, HRIS, governance and decision making
 - have more strategic compensation and benefits practitioners in some of the larger multi-national companies
 - can have administrative compensation functions in smaller organizations if all policies are set by head office



In Summary – Mercer's Point of View

Organizations must apply better asset management techniques to address challenges

Improved Global Intelligence	Cross-Border Risk Assessment	Global Rules of Engagement	Measures of Return
<ul style="list-style-type: none">▪ Inventory of global plans and practices▪ External pay and policies analysis across countries▪ Internal job/talent leveling analysis▪ Turnover by job family/BU country▪ Survey participation efficiency and effectiveness	<ul style="list-style-type: none">▪ Retention of critical skills/talent▪ Succession planning▪ Career development▪ “Pay fairness”▪ Rewards competitiveness▪ Technology optimization	<ul style="list-style-type: none">▪ Enterprise vs. local design and administration▪ Process owners▪ Segmentation of the workforce (critical skills/geography)▪ Survey coordination▪ Governance protocol	<ul style="list-style-type: none">▪ Integration of company databases to monitor:<ul style="list-style-type: none">– Competitiveness– Performance– Retention– Development– Equity

■ And establish effective compensation service delivery models to execute on their strategies

- Create appropriate **delivery models** by clearly defining the function's role and agreeing with business partners about the scope and intensity of the services it will provide
- Based on the scope of activities to be completed, the most effective compensation functions have
 - determined the **proper degree of centralization** versus local governance;
 - ensured sufficient **in-house compensation capabilities** to fulfil the function's responsibilities throughout the year;
 - invested in **technology** for optimal management of their compensation processes;
 - accessed **third party support** to deliver compensation management activities when appropriate; and
 - **integrated data sources** to provide coordinated analyses as well as reduced overlap and cost inefficiency



Questions?

