

# What are companies focusing on in 2012?

"Compensation 2012-2014: What does the future hold?"  
IHRC-Meeting, Zurich

November 2<sup>nd</sup>, 2011

Dr. Thomas Haussmann



# 8 Focus Themes in HR

Make Reward  
more effective

1

Enhance  
diversity

2

Adapt to  
demographic  
changes

3

Attract and  
retain key talent

4

Minimize  
compensation  
risks

5

Balance  
global and local  
requirements

6

Improve  
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Make HR a true  
business  
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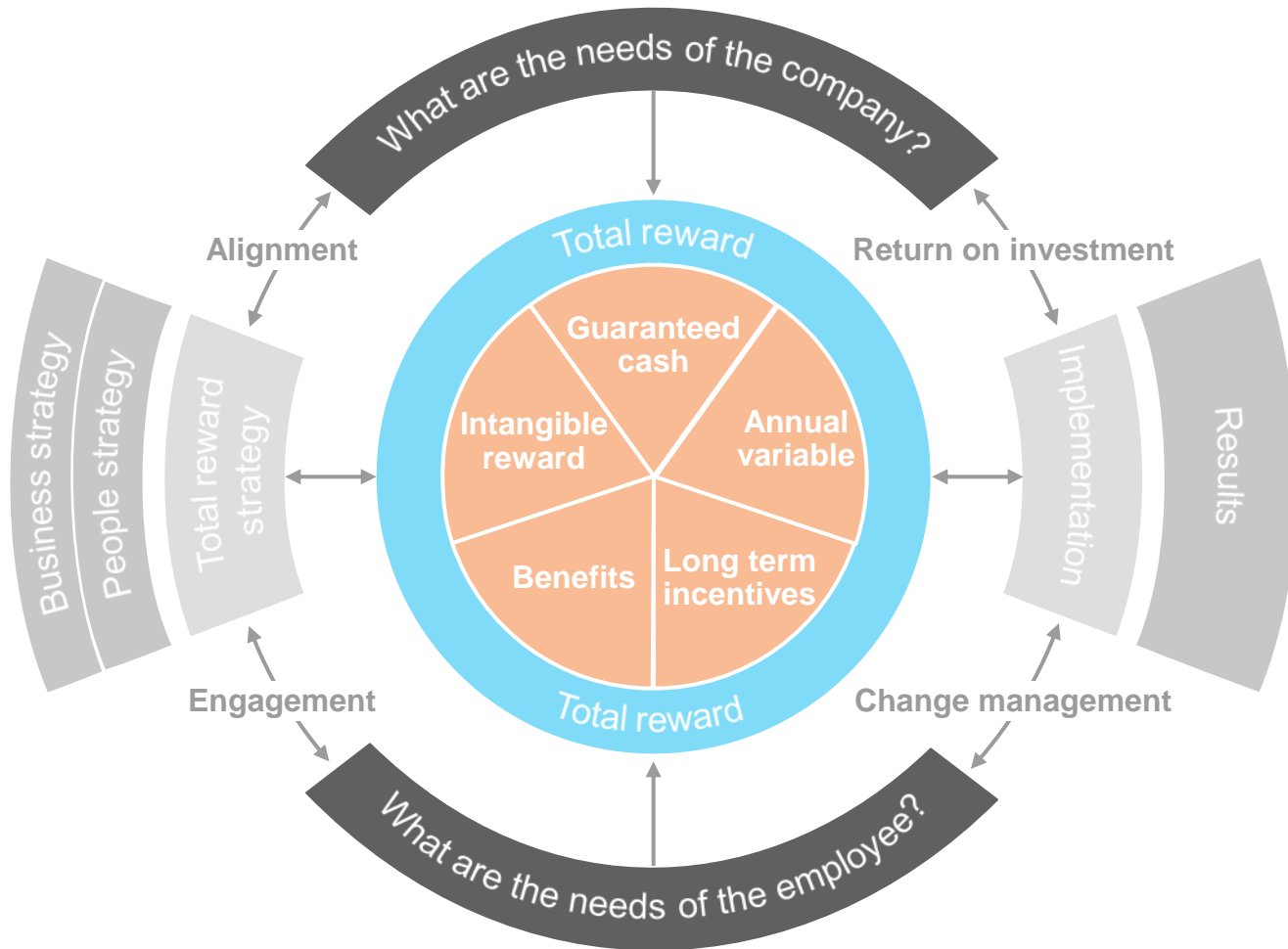
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# Total Reward is much more than cash



# Reward can only be effective if the context is effective as well

## Key considerations for making reward more effective:

- Ensure reward programs are clearly aligned with organizational goals, strategy and culture.
- Implementation is key: Leverage the involvement of managers in reward program implementation.
- Communication is key: Reward systems can be effective if – and only if – line managers and employees understand these systems and the philosophy behind them.
- Promote a “total rewards” view across the organization and leverage intangible rewards.

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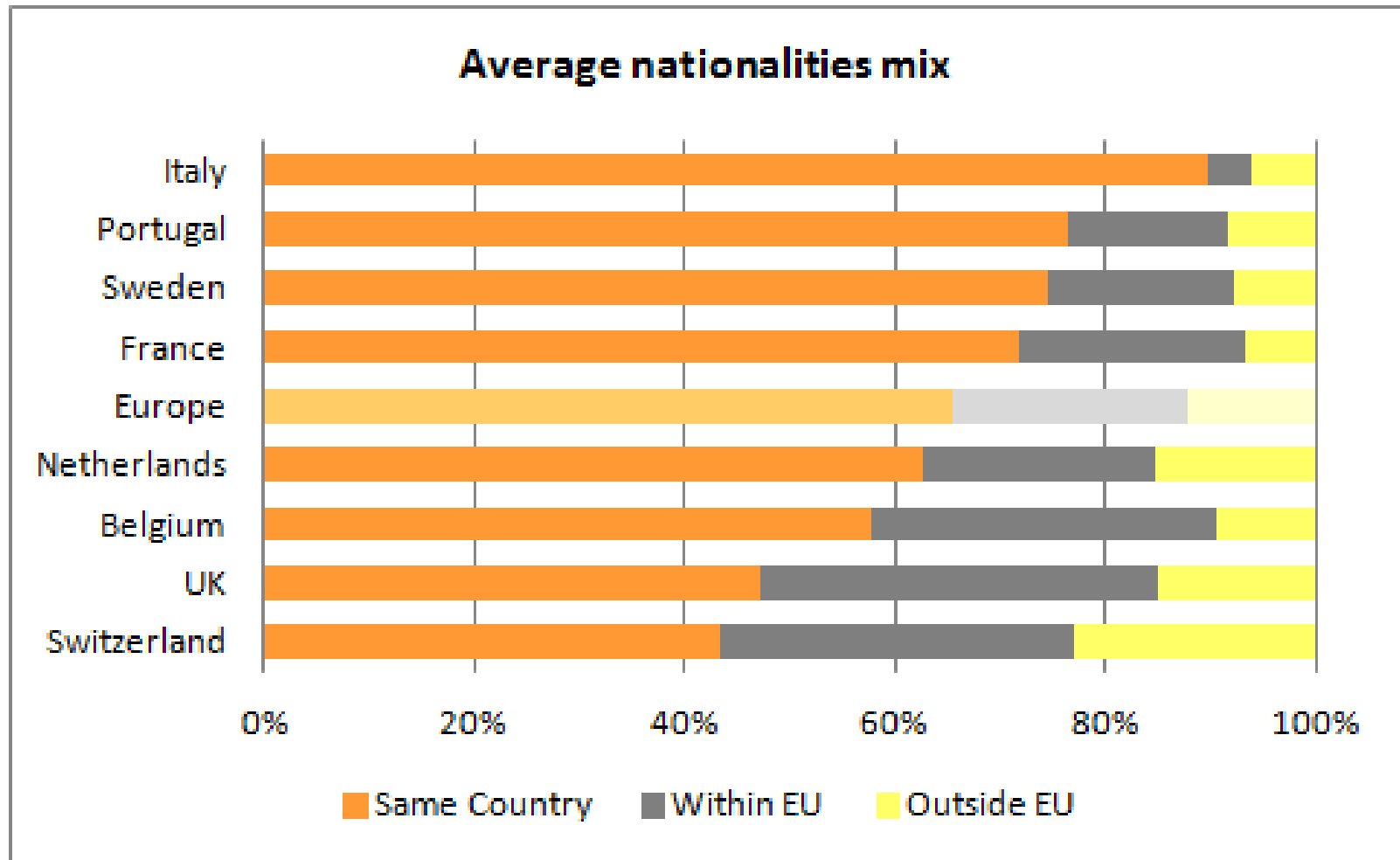
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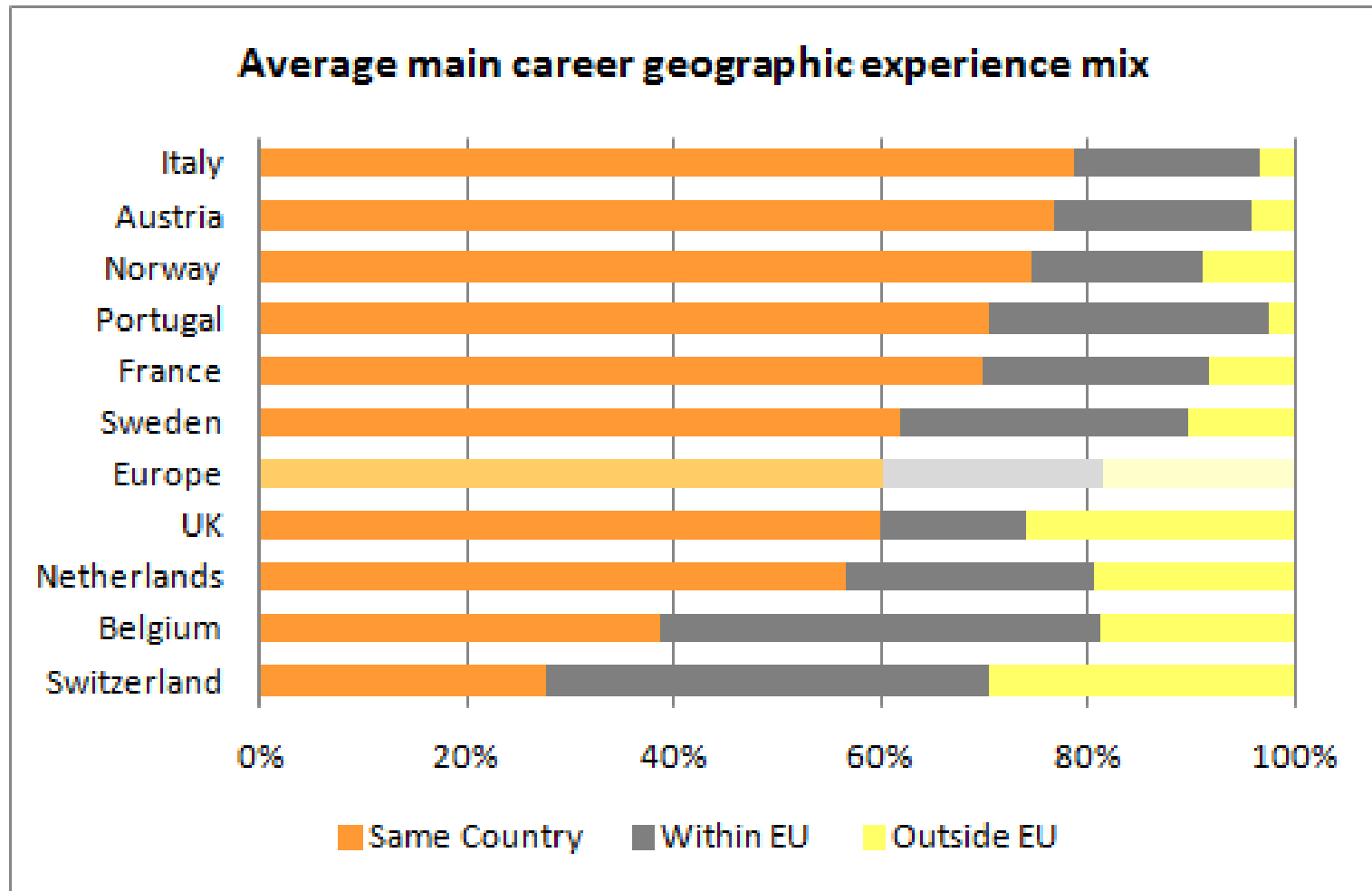
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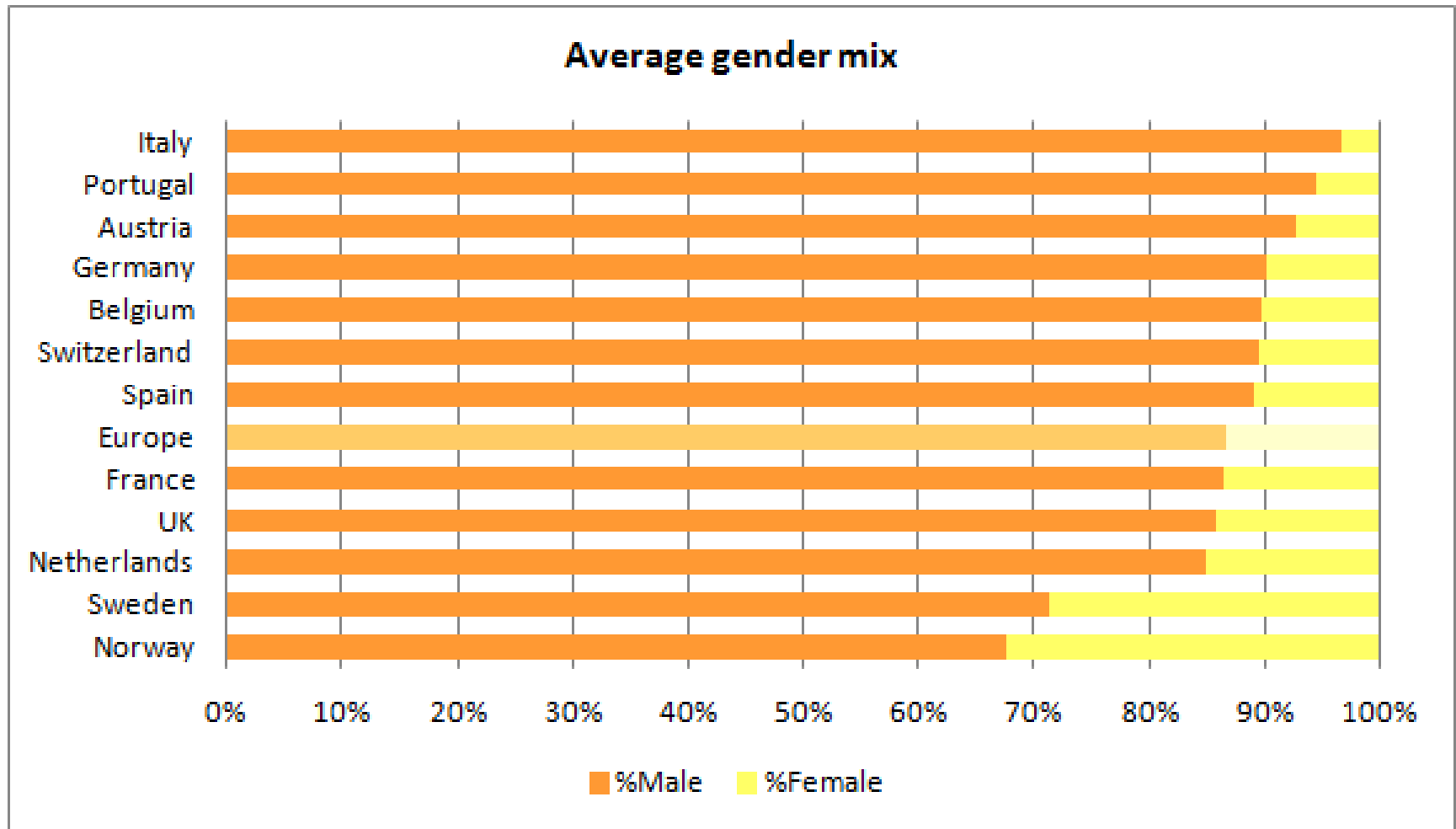
# Non-Executive Director diversity (1/3)



# Non-Executive Director diversity (2/3)



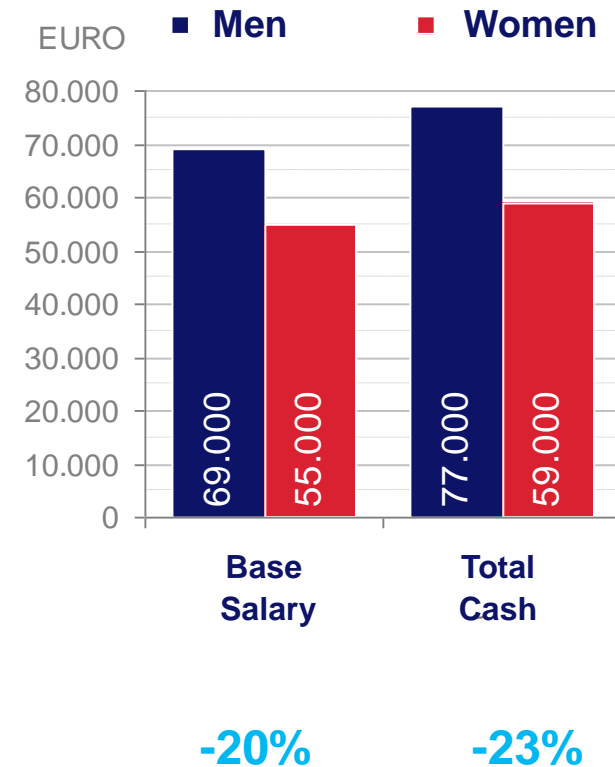
# Non-Executive Director diversity (3/3)



# Gender-Pay: Is it true?

## Yes, because

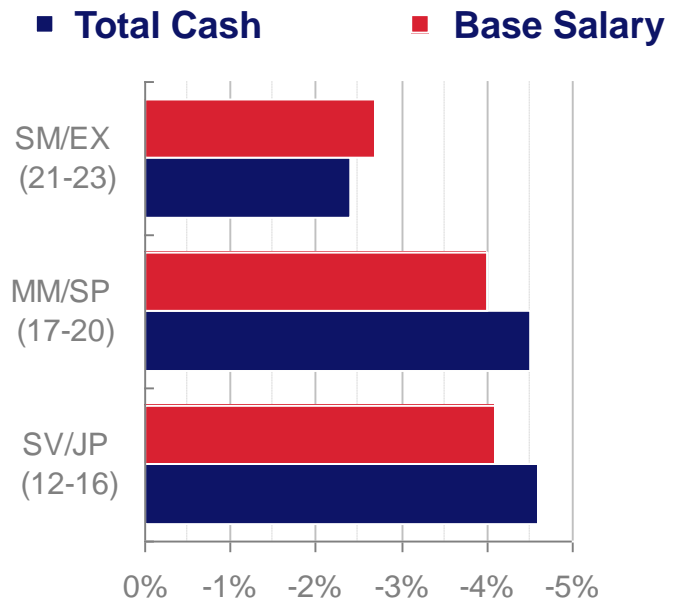
- the data prove that there is a difference
- the share of women in lower level jobs is higher than on management levels: only 8% women in Senior Management / Executive jobs (HGRL 21-23).



# Gender-Pay: Is it true?

## No, because

- it is not correct to simply calculate average values because the number of women on lower level jobs is higher than on management jobs
- a **comparison of functions with equal job values** shows that the difference between men and women is significantly smaller
- there is no such thing as different salary bands for men and women
- But: Bonus payouts for women are on average 8% lower than they are for men → Does that show that women can be less motivated by monetary incentives?



**Difference in compensation  
between men and women:  
~4%**

**Women's** base salary is about **4%** lower than men's base salary.

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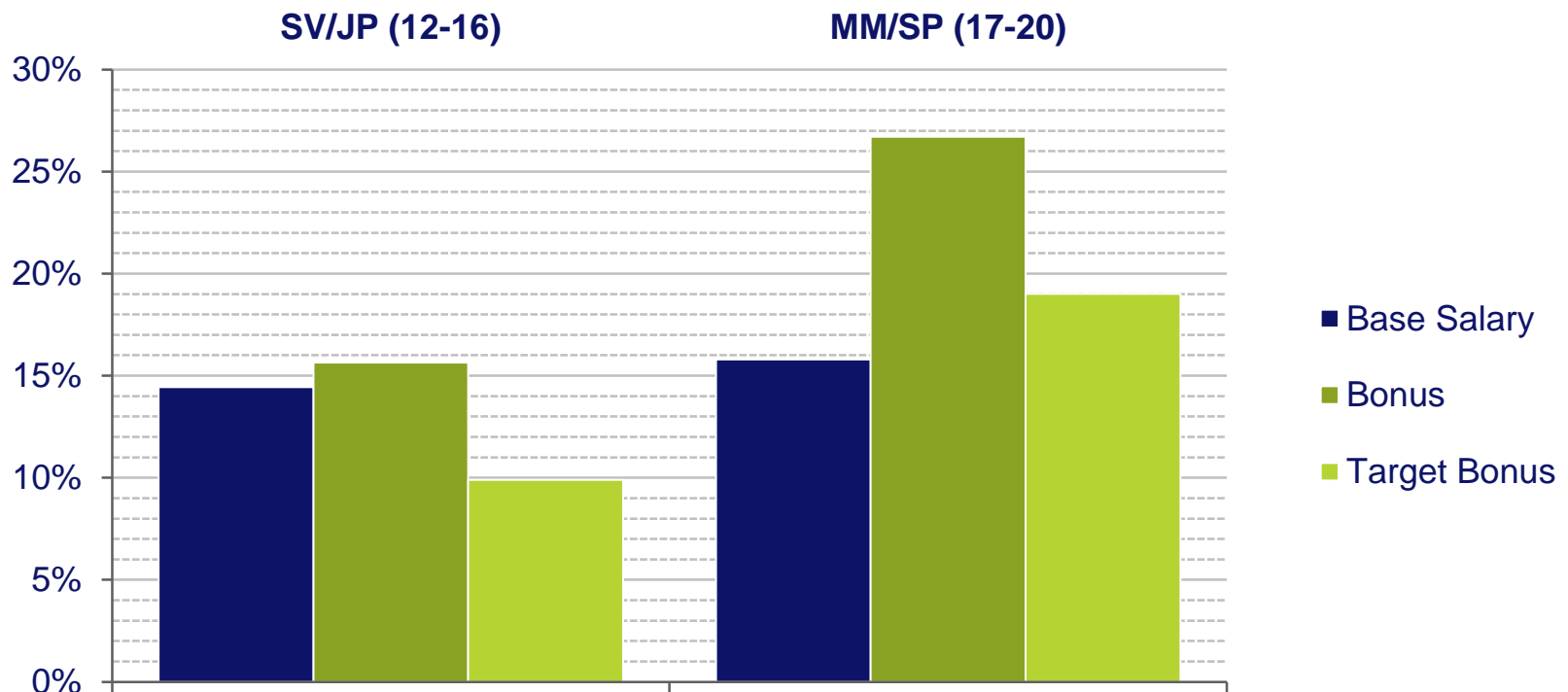
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# Older employees are better paid than their younger colleagues

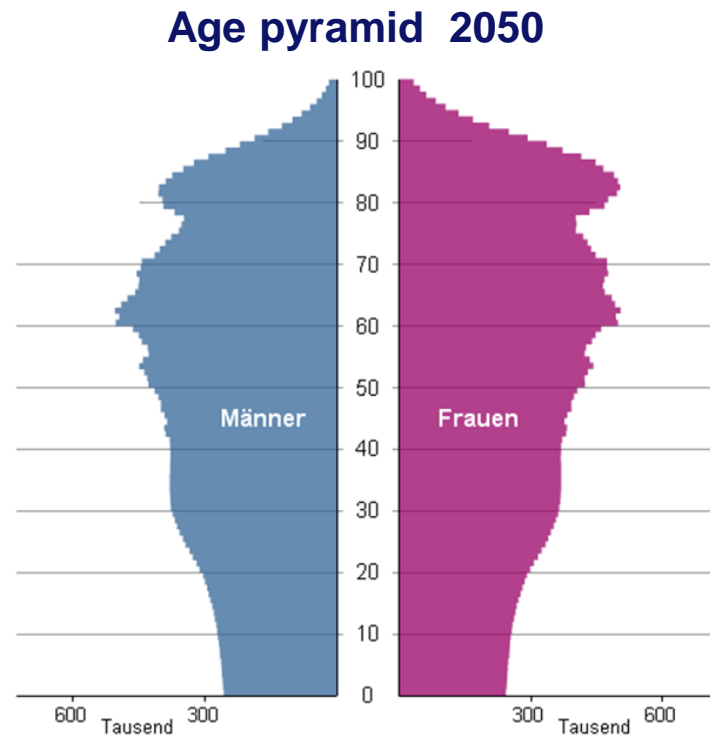
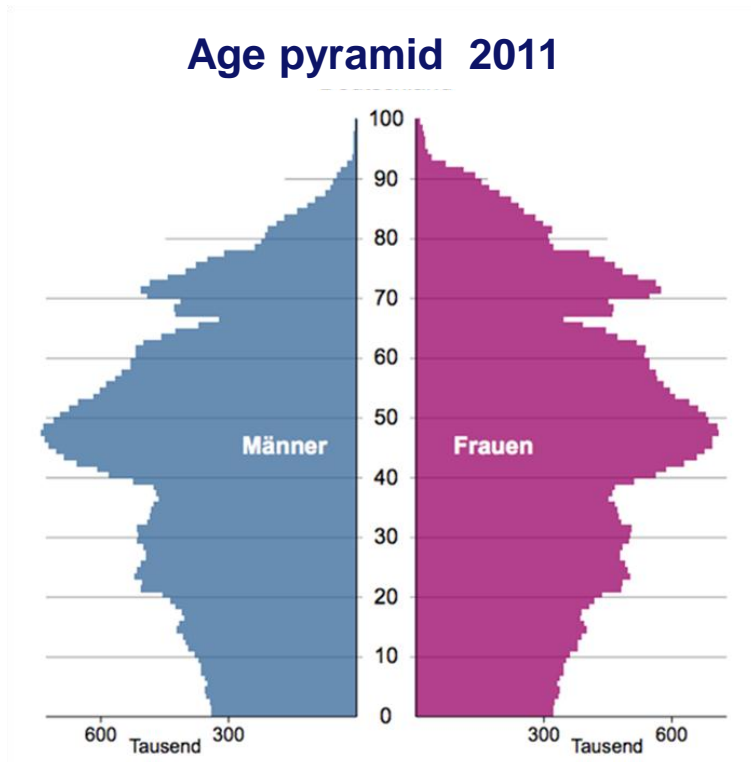
This chart shows the difference (in %) of compensation of employees older than 40 compared to employees younger than 40.

Evidently, compensation depends heavily on age



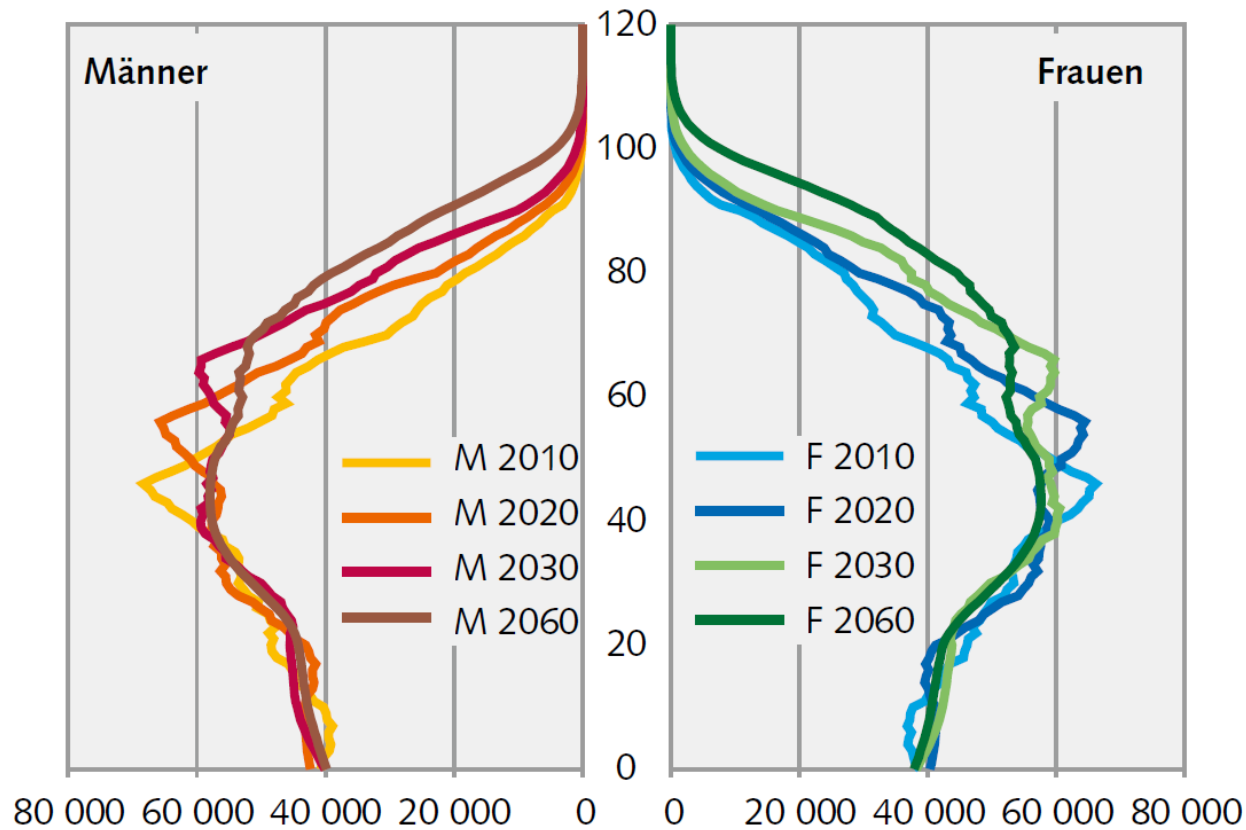
# Germany: Older and shrinking population

Within the next four decades, the number of gainfully employed people will shrink by 10 mio.



Source: <http://www.foerderland.de>

# Switzerland: Older and shrinking population, but to a much lesser extent



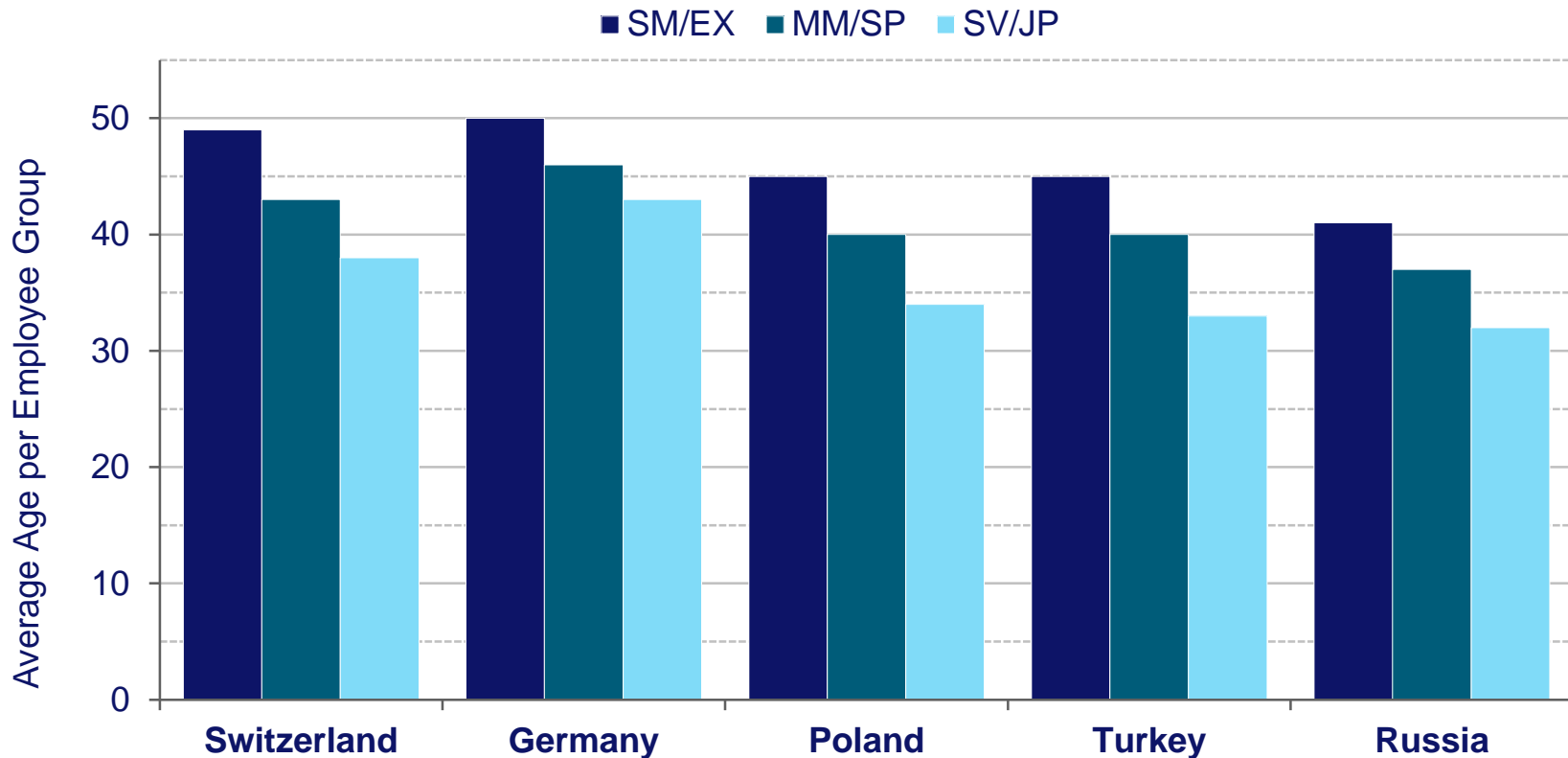
Quelle: BFS/SZENARIEN

© BFS

Demographic  
change  
is a fact.

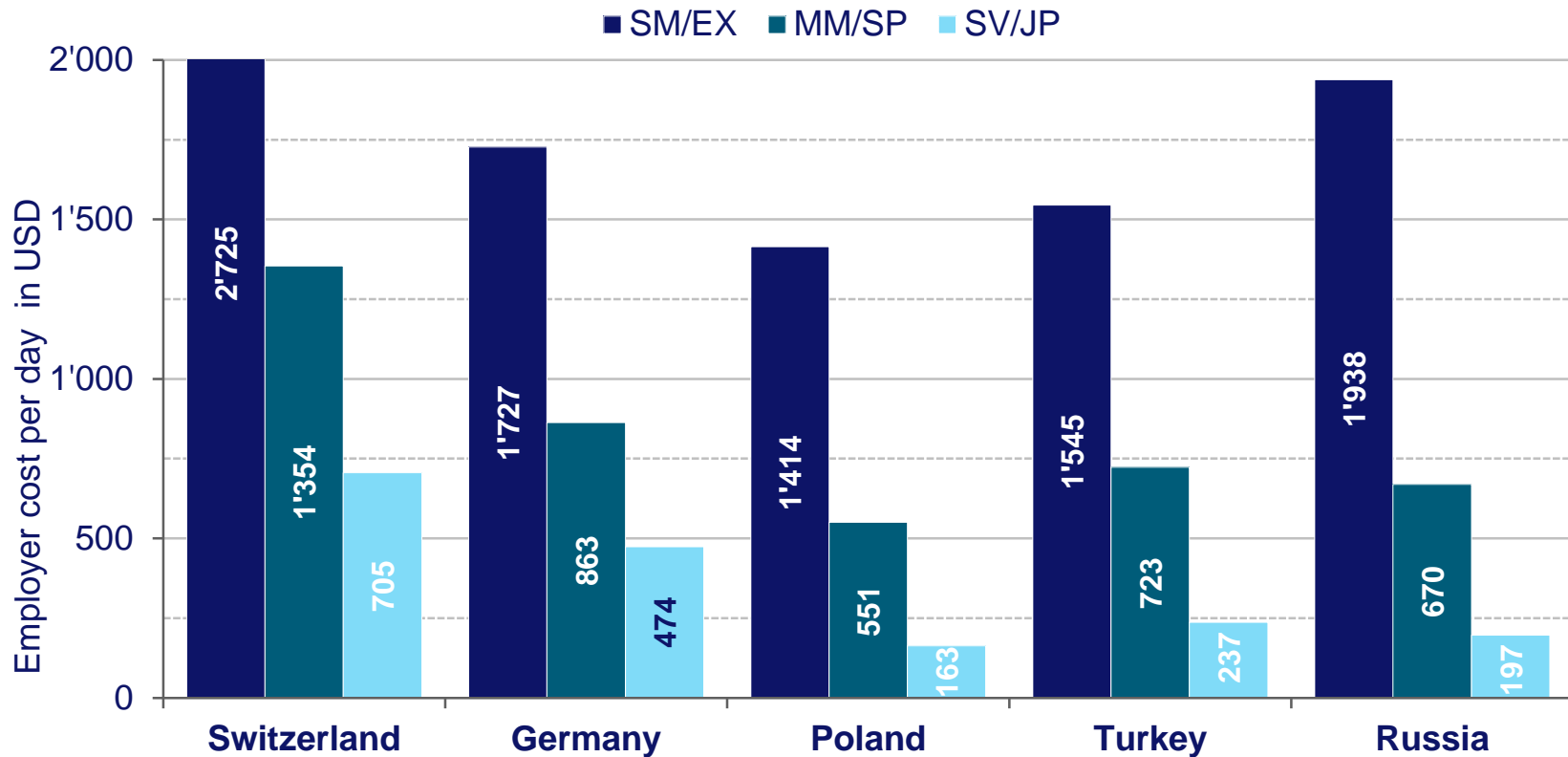
# Age Structure International Comparison

Germany is leading the age structure across all employee groups –  
Switzerland is second



# Total Remuneration per Diem International Comparison

## Switzerland – leading cost structure



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# Making compensation systems risk-proof is one of the key duties of any HR manager

- Incentive mix and measures **aligned with strategy**?
- Compensation vehicles **balanced between short- and long-term** performance?
- Compensation vehicles **balanced between “fixed” and “at-risk”** pay?
- Goal-setting processes reflect **appropriate emphasis on key drivers** of business performance?
- Plan **implementation consistently applied**?
- Alignment of pay with marketplace **competitiveness**?
- Appropriate use of **management discretion**?
- Is **relative performance consistent** with relative payouts?
- Do threshold / target / maximum performance levels reflect a **reasonable range of performance** expectations?
- Is the **time horizon of incentives** correlated with the time horizon of risks?
- Can the company and its risk managers identify **excessive risk**?
- Have appropriate efforts been undertaken to **mitigate risk**?

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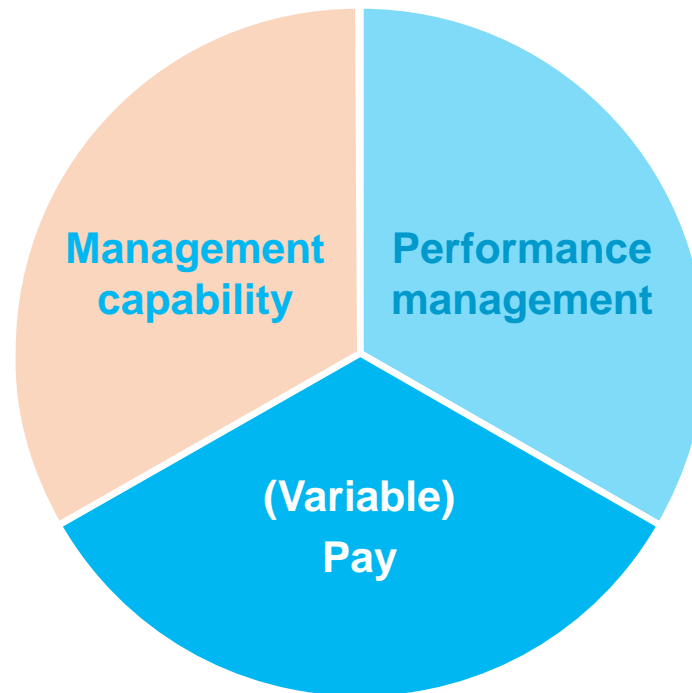
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# Good Performance Management is the key to success

- We know that setting a specific goal and creating a plan can increase the probability of achieving the goal from 5% to over 70%.
- We also know that goals have to be set that have a balance of moderate risk, i.e. they need to feel challenging (and therefore interesting), but also need to feel achievable.
- Our work on organizational climate shows that clarity around individual expectations in role, as well as the mission and direction of the team, is the most important climate dimension.
- If we can move the performance curve just one standard deviation to the right, Hay Group research has shown we can improve productivity by 20-120% depending on the nature of the employee's work.

# Compensation is only part of the picture

## Rewarding performance

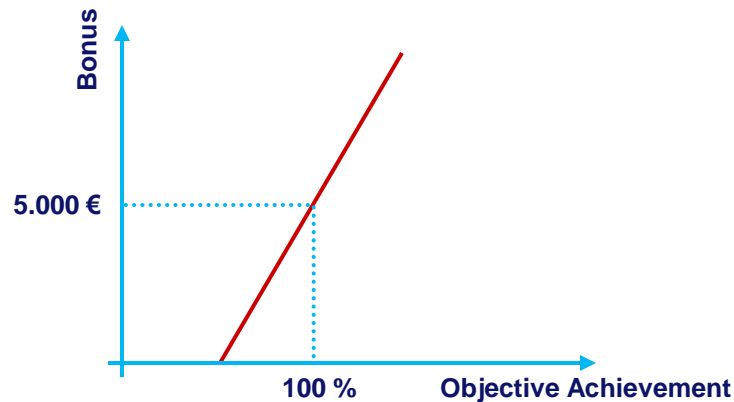


- ❖ Compensation is just one key element of rewarding performance. It is important, but will not work as a stand-alone solution.
- ❖ In order to be fully effective, (variable) pay must be complemented by an integrated performance management system and by capable leaders.

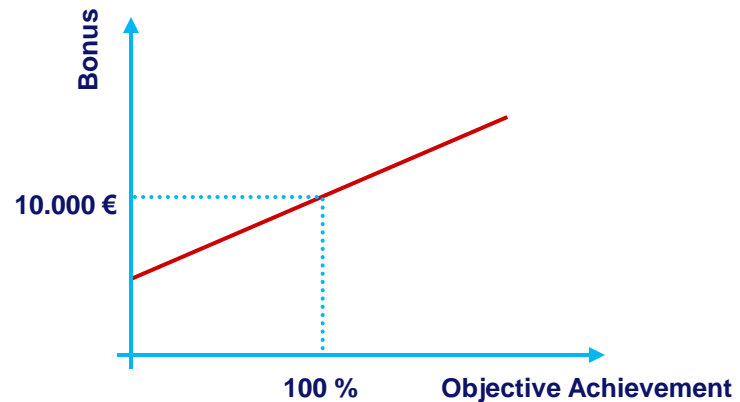
# Variable Pay: Less is more

Which variable pay system is more variable?

**System 1**



**System 2**



# Communication is key

- The organization must have and communicate a clear vision of what it is trying to accomplish via the variable pay program and why it is important. If employees understand the ‘why’, they are much better equipped to understand the ‘what’. Management (and not just participants) needs a clear understanding of what the team/individual must achieve to support program objectives.

“Distilling the message and getting line managers to really buy it as well is critical to effective communication.”

Multinational manufacturing organization

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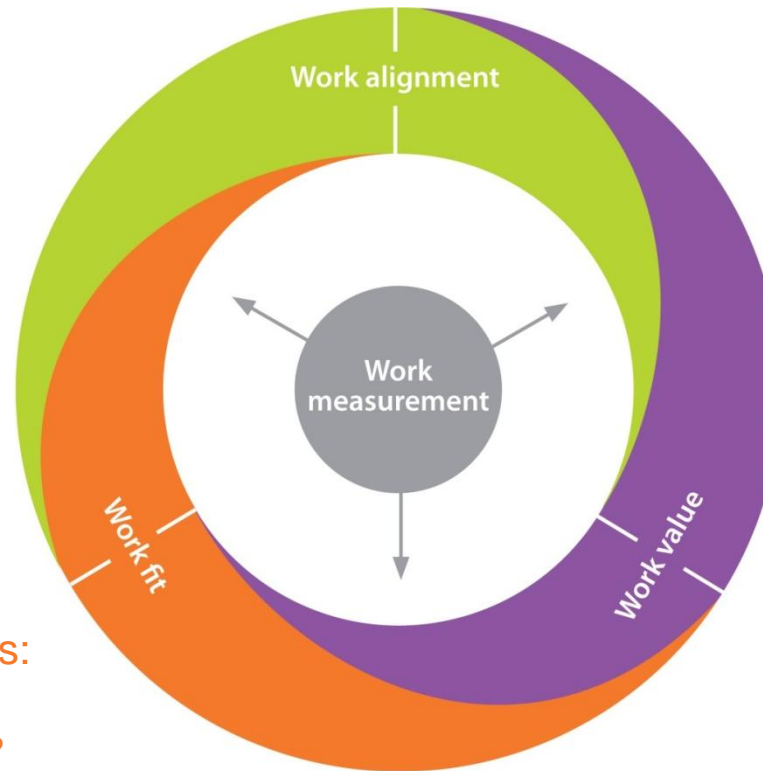
# Hay Group Spectrum

## Work alignment

Organizational effectiveness:  
*does your structure fit with your strategy?*

## Work fit

Matching people and jobs:  
*do you have the right people in the right roles?*



## Work value

Knowing what work is worth: *what is the value that each role/person brings to your organization?*

*All enabled by*

## Work measurement

Understanding, analyzing work and creating order from chaos by creating frameworks for reward, talent management and organizational effectiveness