

Total Rewards

India • Volume 1 • Issue 3

Q U A R T E R L Y

Expatriate Compensation

The India Story

04

Globalization of
Compensation

09

Salary Barometer

11

Talking Global
Compensation

24

Genpact: Making
Rewards Work



what's *inside*

COVER STORY

Expatriate Compensation The India Story

There is a plethora of choices of compensation approaches that can be adopted for long-term international assignments, each with its own advantages and shortcomings. It is therefore not surprising that for organizations undertaking international assignments for the first time, zeroing in on the right compensation approach can appear to be a daunting task.



Globalization of Compensation

04

Salary Barometer

09

Talking Global Compensation

11

Genpact: Making Rewards Work

24

Survey Calendar

26

Update

27

Total Rewards Quarterly
India • Volume 1 • Issue 3
www.aonhewitt.com

Editors

Shilpa Khanna

shilpa.khanna@aonhewitt.com

Sushil Bhasin

sushil.bhasin@aonhewitt.com

Tel: +91 124 4155000

Editorial, Reprints &

Syndication Office

Aon Hewitt Tower, DLF Centre Court

Sector-42, Gurgaon, India-122002

Tel: +91 124 4155000

Fax: +91 124 4052010

Subscription Requests

totalrewards@aonhewitt.com

Editorial Feedback

totalrewards@aonhewitt.com

Design

CREATIVE INC. (www.creative-inc.in)

Total Rewards Quarterly is published

four times a year by Aon Hewitt

Copyright © 2011 Aon Hewitt



It has been an eventful quarter for us. It marked two of our biggest events – the 4th Annual Around the World with Total Rewards Conference and the felicitation ceremony for the Top 25 Best Employers in India 2011. Both these events were great opportunities that brought our clients and us together, to learn, share and challenge ideas.

In this edition of the Total Rewards Quarterly, we bring to you a few topical themes that we know are on your agenda. Indian organizations are rewriting the rules of competitiveness as they are truly at the cusp of globalizing, both in terms of new markets and workforce. Our feature on 'Globalization of Compensation' shares with you our perspective on how compensation needs to support the global vision better. We have taken extracts from Aon Hewitt's panel discussion at the Around the World with Total Rewards Conference, where we had the opportunity to understand how compensation practices have evolved in organizations like Mahindra & Mahindra, ICICI and Cisco. Also, to bring this to life, we have Piyush Mehta sharing the Genpact story and how having a long-term view has helped them remain cost-competitive and improve performance.

Connected to this, is the issue of expatriate compensation. Much to the common belief, Indian organizations are not just tapping the developed markets, but are using their knowledge of the emerging markets to expand across new markets like South Asia, the Middle East, Africa and Latin America. The reverse is also true. With sectors like retail, aviation, oil & gas and biotech hiring global talent, it tells us that this trend will only intensify and we no longer can continue managing it without any benchmarks. Aon Hewitt brings to you the highlights of the first-ever in-depth study conducted on expatriate compensation in India.

In this issue, we also have Richard Kantor, our global expert on Total Rewards, sharing his perspective on global compensation. He has had the unique opportunity of being positioned and working with clients across North America, Europe, Latin America and Asia Pacific, and hence, provides a viewpoint that is truly global and distinctive.

We hope you enjoy the issue and look forward to receiving your comments and feedback!

Sandeep Chaudhary

Regional Practice Leader –
Asia Pacific Compensation Consulting
Aon Hewitt

For more information, please write to us
at totalrewards@aonhewitt.com



Globalization of Compensation



Globalization as a concept has been around for two to three decades now. However, what makes the discussion current is the marked shift in the epicenter of the globalization activity. While it was the US and European organizations that took the world by storm in the early 80s and 90s, today it's the turn of Indian organizations and their Asian counterparts to spread their wings on the global stage.

As the world economy becomes increasingly integrated and entwined, the environment has started to get more uncertain and complex. Organizations are grappling with innumerable issues ranging from diverse economic environments to varied cultural nuances, pronounced by the need to find a balance between global consistency & control and locally effective practices.

In this scenario, global compensation has emerged to be one of the key challenges for organizations today. And while there is much to learn from global multinationals, there are a number of opportunities and challenges that are unique to an emerging market's landscape such as India.

In an attempt to demystify global compensation, Aon Hewitt espouses the BWCS approach – a framework that studies how Business, Workforce, Culture and Strategy intertwine to deliver an effective global compensation philosophy.

With each organization interpreting the BWCS construct differently, Aon Hewitt's recent panel discussion at the Annual Rewards Conference on 'Growing Beyond Our Shores: Opportunities,

Challenges and Learnings' had leading organizations, sharing wide ranging points of view, and equally effective global compensation strategies that have helped them create the right value for their multiple stakeholders.

The West Rewrites the Rules of Competitiveness

Globalization in the early 80s was driven by technological advances but more importantly, it was driven by large organizations in the west looking for new ways to grow. With a flat growth rate in their home markets, organizations needed to venture beyond their shores in search of new consumption.

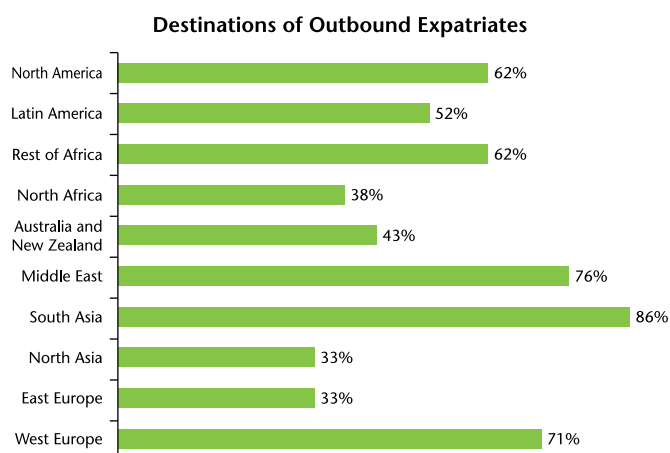
Not surprisingly, these organizations found Asia, with its large population and heavy proportion of younger demographics, their fastest growing region. Take the case of the fast food giant McDonald's – when it released its financial results for 2010 in January, operating income was up 8% in Europe, 7% in the US and a whopping 21% in Asia Pacific, the Middle East and Africa (APMEA). McDonald's is not an isolated example. Most international brands find that their home markets account for less than 10% of global profits today.

The Steady Internationalization of Indian Organizations

India with its large middle-class – more than the size of the population of some countries – quickly found favor with a majority of multinationals. Today over 125 Fortune 500 companies have already established their R&D bases in India, and India accounted for nearly 10% of all Foreign Direct Investment (FDI) inflows to the developing world in 2009.

But what started out with cost savings in mind has slowly undergone a perceptible change. Organizations are no longer here simply from a cost point of view but from a value based and intellectual arbitrage perspective, resulting in an organization like Cisco establishing India as its parallel headquarters outside the US.

Similarly, on a mission to diversify revenues and strengthen their business models, several home-grown organizations have moved beyond traditional destinations to increasingly create outposts in emerging/developing countries in South Asia, the Middle East, Africa and Latin America.



Source: Aon Hewitt 'International Assignee Policies & Practices Study 2011'

The Impact of Globalization on HR and Rewards

Globalization has been a definite turning point in the management of Human Resources. The recentralization of business activities, transnational mergers and strategic alliances, an increasing proportion of employees residing in non-headquarter countries and the global sourcing of talent translates to a need to manage a diverse, more mobile workforce and strike a balance between global strategy and local needs & constraints.

On the ground, organizations adopt varied strategies – while an organization like Mahindra & Mahindra propagates the importance of following a strategy of localization and not falling prey to the temptation of replicating the success of one market to another, ICICI Bank strongly believes that if an organization has a global management ethos in place, it is imperative to make it consistent across countries.

Whichever way organizations perceive the impact of globalization on HR, they realize the great opportunity to drive both strategic growth and cost efficiency with a global model. In fact, an increasing number of business leaders have begun to view HR as the function that can truly help organizations transition from 'international' to 'global' players.

We have thus seen modifications in training, recruitment and career development programs – while organizations continue to implement these at a local level, there is a concerted effort to develop a more strategic and integrated approach globally.

Unfortunately, relatively few organizations have considered the role that total compensation – pay and benefits – ought to play in supporting the efforts of globalization. This stems from the fact that devising global

compensation programs is fraught with challenges such as diverse economic situations, differing demographic patterns and conflicting talent management priorities.

For most organizations, trying to navigate through this complex landscape has been a case of trial and error rather than a well thoughtout game plan. Hardly surprising then that compensation has remained one of the most underdeveloped sections of a global business today.

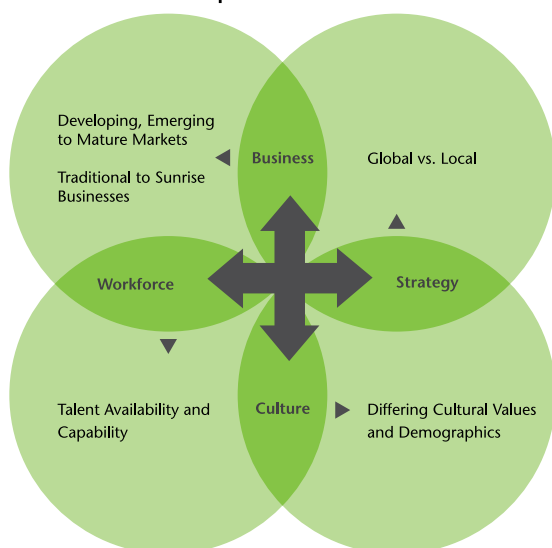
Rewards for a Global Organization

Going back to the drawing board, whenever there has been a significant change in business objectives, the rewards strategy has needed to undergo some transformation. Globalization is that significant shift in business strategy that demands a change from the way things were done before to a new way of looking at it.

To maintain their competitiveness in the global market, organizations need rewards programs that will enable them to:

- Effectively ensure that their people strategy and costs in the new location are aligned to the business objectives
- Facilitate global mobility for the required talent
- Ensure competitiveness of the employment offer in the new location and offer scalability
- Treat employees comparably, irrespective of their home country
- Provide flexibility in order to balance global and local needs
- Be compliant with local requirements

The BWCS Approach Towards Defining a Global Compensation Construct



"We determine bonus as a mix of the following variables – company performance, customer satisfaction and individual performance. Since everyone is driven by the overall company performance, employees across geographies and functions are bound by one shared collective destiny."

Subash Rao,
Director – Human Resources,
Cisco Systems India

Aon Hewitt, on the basis of its years of experience in working with multinationals across the globe, has developed a simple, yet effective construct. The BWCS approach – which entails studying the mix of Business, Workforce, Culture and Strategy – provides the framework to organizations to start defining global compensation.

Business

Different markets have different business compulsions that consequently demand different talent priorities

First and foremost, a rewards strategy needs to be relevant to the market an organization is operating in.

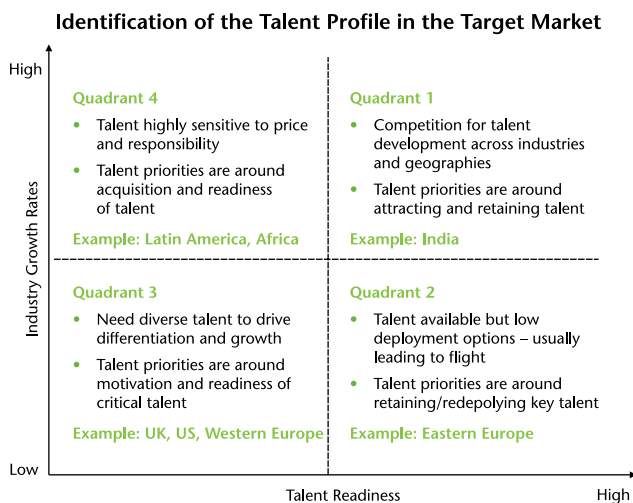
For example, in a developed market, growth is hard to come by and is essentially a factor of eating into the competition's share; while in an emerging market, there is tremendous potential in penetrating the market and tapping new customers. On the other hand, what may constitute a traditional business in a developed market maybe a sunrise industry in an emerging market, creating different priorities such as war for talent, higher attrition rates and the need to manage a better return on investment.

There is no magic bullet that can provide answers to the diverse challenges an organization faces in different markets. In fact, organizations have to be sensitive to variations and appropriately fine-tune their strategies around attracting and retaining talent, goal setting and identifying real performance.

Workforce

Talent availability, capability and differing demographic patterns dictate the motivators of a workforce in a market

Compensation strategies need to align to the top talent needs across markets. This begins with the imperative of identifying the talent profile in the target market. In a high growth market like India, where the talent readiness is high and there is healthy competition to deploy talent across industries, an organization's priorities revolve around attracting and retaining talent. In other high growth markets such as Latin America and Africa, where talent readiness is relatively low, organizations focus on acquiring and readying that talent. Training the talent becomes imperative across these markets. Conversely, in flat growth economies such as the UK, US and Western Europe, there is a growing need to re-skill talent to drive differentiation and growth. In these markets, organizations find that their priorities revolve around motivation and readiness of critical talent. The compensation programs, under the overall umbrella of a global compensation philosophy, need to ensure that they are addressing the right talent need in every specific market.



The significance of distinguishing the nature of workforce becomes doubly essential given the vast difference in the demographics of a developed vs. emerging market. A younger workforce in countries like India vs. an ageing population in developed countries will possibly lead to differing employee preferences and hence, different rewards structures.

Culture

Looking beyond regional differences to some globally consistent shifts

Diverse markets mean diverse regional and cultural nuances. Traditionally, factors that drove pay increases differed widely across different cultures – from performance

in North America to role and scope of responsibility in Europe to age and years of service in many parts of Asia.

While the jury is still out on whether globalization has made the world flat and rewards have become culture-neutral, we have noticed some globally significant shifts:

- A greater focus on differentiating and rewarding performance
- Increased prevalence of variable pay programs
- Importance of market competitiveness

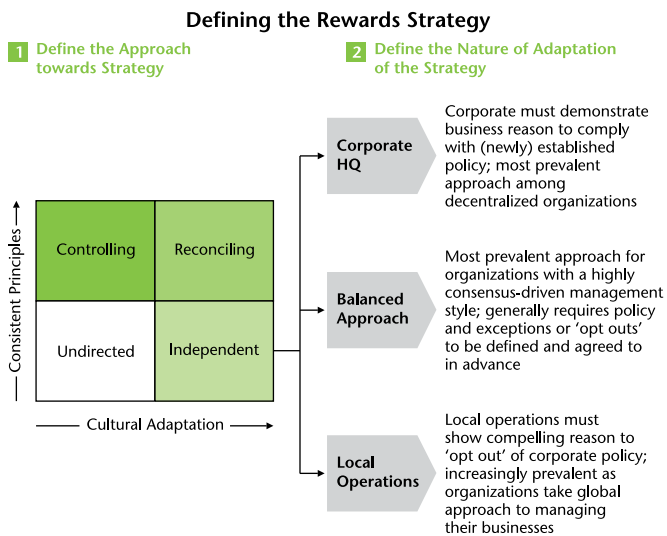
Echoing the fact that there are some rapidly converging similarities across markets is Cisco. The organization feels that the talent pool itself is increasingly becoming global in its perspective. Employees above a certain level are in fact oblivious to where they are placed in the organization, but more conscious of what their responsibilities are. So, an employee may be based in Mumbai or Bengaluru but still capable of pursuing a global career. In fact, with the workforce in developing economies becoming more dynamic and aspirations becoming more assertive, these markets are second to none. The organization also adopts a fundamental philosophy of paying for performance that remains consistent across regions. Mahindra & Mahindra on the other hand, strives hard to understand the cultural nuances of new markets they enter and align their pay philosophies accordingly.

"At Mahindra & Mahindra, our strategy is in terms of integrating cultures rather than implementing one philosophy across markets. For us, what binds the organization, businesses and people across markets are our core values, core purpose and our philosophy that emerges out of our Brand promise – Rise. In addition, our acquisition policy is to retain local management teams in the markets where we grow inorganically. This philosophy helps us to build synergy and create momentum in our businesses to help us achieve our aspirational business goals."
**Prince Augustin,
 Executive Vice President – HR (AFS),
 Mahindra & Mahindra**

Strategy

The eternal debate to decentralize vs. consolidate

Globalization often forces organizations to confront the crucial issue of how best to balance the desire for global consistency and control with the desire for local effectiveness and efficiency. In resolving this issue, it is important to note that there is no single 'correct' approach. Rather than focusing on the most appealing approach theoretically, well-managed global organizations need to identify the strategy that makes the most sense for their business and then rigorously review, redesign, measure and re-adjust to make sure that the strategy is being faithfully applied.



"We increasingly see a direct correlation between sharing of wealth and employee performance – a trend that is especially pronounced in the west. We however, strongly believe in aligning compensation to the bank performance and thus follow standard practices across our branches. While at first, this may be difficult to exercise in the more developed and mature markets, in the long run, we have seen it to build better teamwork."

Saurabh Singh,
General Manager – HR,
ICICI Bank

Leading organizations are learning to become more strategic and deliberate about what can and should be managed in global Centers of Excellence (CoE), while leaving to local markets, programs that need to be governed by local governance and regulations, cultural norms, and local considerations.



Finally, the rewards strategy is one that allows an organization to avoid reinventing the wheel in different markets, but at the same time keeps itself open to local core competencies, thus facilitating an exchange of best practices and building a strong value proposition for the brand.

Conclusion

The rewards function is truly the conscience keeper of the organization. No longer is it bound by the considerations of local managers but rather a well thoughtout product of global and regional perspectives.

The key deliverables of creating a global rewards framework should be reflected in a corporate architecture that is agile rather than just lean, responsive rather than just standardized, and internally and externally optimized rather than centralized.

Starting with imbibing the BWCS approach, as the world becomes more interconnected, organizations can only anticipate additional progress in an HR model that resonates with all.



Sandeep Chaudhary

Regional Practice Leader –
Asia Pacific Compensation Consulting, Aon Hewitt
For more information, please write to us
at totalrewards@aonhewitt.com



Salary Barometer

A Ready Reference to Salary Increase Trends in Corporate India 2011

In an environment of constantly changing macro-economic conditions and a rapidly evolving rewards landscape, it becomes extremely critical to keep abreast with the current market trends. Keeping with the commitment of bringing periodic updates on performance and rewards to our clients, Aon Hewitt conducted a mid-year dipstick in May-June 2011 as a follow-up to our 15th Annual Salary Increase Survey concluded in March 2011. The objective of the dipstick was to gauge the difference between the salary projections made during January-March 2011 and the actual salary increases paid out in 2011. The survey covered 214 organizations across 12 primary and 28 secondary industries.

The study reveals that salary increases in corporate India continue to be the highest when compared with other economies in the Asia Pacific region. As indicated by the study, the actual annual salary increase in India ranges between 12-14% across industries and the trend is expected to continue for the next 3-5 years. The typical variance between projections and actual salary increases provided in 2011 is within the range of (+/-) 0.5% across sectors.

Sectors reliant on domestic consumption such as engineering/manufacturing, energy, infrastructure and engineering services continue to be the market leaders in the trend. Outsourcing and technology have had a big positive swing from the recessionary period of 2009 and have given a 12% increment to their employees in 2011. Thriving on increased consumer spending; retail, automotive and FMCG have provided higher than projected increases in 2011. However, due to the rising fuel, raw material & input costs and interest rates, these industries might feel the pinch in the short-term.

Further widening of pay gap is definitely on the horizon as organizations are committed to differentially reward their top talent. Increments for top performers are 18.2% vs. 10.4% for average performers, taking this ratio to 1:1.8 for India. While on one hand, this metric is sharper for services industries such as IT, ITeS, telecom and retail, it is lower than India average for manufacturing industries such as automotive, energy and engineering.

The given industry dashboards weave the story of performance and rewards trends in India in 2011.

Engineering Services Industry	
Salary Increase Projected 2011 (%)	14.4
Salary Increase Actual 2011 (%)	14.2
% Employees in Top 2 Performance Ratings	33
Outstanding: Average Performer Salary Increase	1.8:1
Fixed: Variable Pay Mix	88:12
Prevalence of Long-term Incentives (% Organizations)	59
Attrition Rate (%)	12.2

Energy Industry	
Salary Increase Projected 2011 (%)	14.0
Salary Increase Actual 2011 (%)	13.7
% Employees in Top 2 Performance Ratings	42
Outstanding: Average Performer Salary Increase	1.6:1
Fixed: Variable Pay Mix	81:19
Prevalence of Long-term Incentives (% Organizations)	50
Attrition Rate (%)	10.4

Engineering/Manufacturing Industry	
Salary Increase Projected 2011 (%)	13.7
Salary Increase Actual 2011 (%)	14.2
% Employees in Top 2 Performance Ratings	38
Outstanding: Average Performer Salary Increase	1.6:1
Fixed: Variable Pay Mix	87:13
Prevalence of Long-term Incentives (% Organizations)	63
Attrition Rate (%)	11.6

FMCG/FMCD Industry	
Salary Increase Projected 2011 (%)	13.4
Salary Increase Actual 2011 (%)	13.7
% Employees in Top 2 Performance Ratings	29
Outstanding: Average Performer Salary Increase	1.8:1
Fixed: Variable Pay Mix	84:16
Prevalence of Long-term Incentives (% Organizations)	48
Attrition Rate (%)	13.9

Telecom Industry	
Salary Increase Projected 2011 (%)	12.5
Salary Increase Actual 2011 (%)	11.9
% Employees in Top 2 Performance Ratings	30
Outstanding: Average Performer Salary Increase	1.9:1
Fixed: Variable Pay Mix	85:15
Prevalence of Long-term Incentives (% Organizations)	53
Attrition Rate (%)	15.9

IT Industry	
Salary Increase Projected 2011 (%)	12.0
Salary Increase Actual 2011 (%)	11.7
% Employees in Top 2 Performance Ratings	38
Outstanding: Average Performer Salary Increase	1.8:1
Fixed: Variable Pay Mix	86:14
Prevalence of Long-term Incentives (% Organizations)	74
Attrition Rate (%)	17.6

Automotive Industry	
Salary Increase Projected 2011 (%)	14.0
Salary Increase Actual 2011 (%)	14.4
% Employees in Top 2 Performance Ratings	39
Outstanding: Average Performer Salary Increase	1.4:1
Fixed: Variable Pay Mix	85:15
Prevalence of Long-term Incentives (% Organizations)	55
Attrition Rate (%)	11.7

Infrastructure Industry	
Salary Increase Projected 2011 (%)	13.9
Salary Increase Actual 2011 (%)	13.9
% Employees in Top 2 Performance Ratings	44
Outstanding: Average Performer Salary Increase	1.9:1
Fixed: Variable Pay Mix	87:13
Prevalence of Long-term Incentives (% Organizations)	58
Attrition Rate (%)	12.8

Pharmaceutical Industry	
Salary Increase Projected 2011 (%)	13.2
Salary Increase Actual 2011 (%)	13.2
% Employees in Top 2 Performance Ratings	31
Outstanding: Average Performer Salary Increase	1.8:1
Fixed: Variable Pay Mix	87:13
Prevalence of Long-term Incentives (% Organizations)	67
Attrition Rate (%)	22.5

Banking/Finance/Insurance Industry	
Salary Increase Projected 2011 (%)	12.7
Salary Increase Actual 2011 (%)	12.4
% Employees in Top 2 Performance Ratings	31
Outstanding: Average Performer Salary Increase	1.8:1
Fixed: Variable Pay Mix	81:19
Prevalence of Long-term Incentives (% Organizations)	82
Attrition Rate (%)	24.9

Retail Industry	
Salary Increase Projected 2011 (%)	12.4
Salary Increase Actual 2011 (%)	12.5
% Employees in Top 2 Performance Ratings	40
Outstanding: Average Performer Salary Increase	1.8:1
Fixed: Variable Pay Mix	85:15
Prevalence of Long-term Incentives (% Organizations)	47
Attrition Rate (%)	22.5

ITeS Industry	
Salary Increase Projected 2011 (%)	11.9
Salary Increase Actual 2011 (%)	11.8
% Employees in Top 2 Performance Ratings	35
Outstanding: Average Performer Salary Increase	1.8:1
Fixed: Variable Pay Mix	86:14
Prevalence of Long-term Incentives (% Organizations)	71
Attrition Rate (%)	22.4

For any further queries or clarifications, please write in to Poonam Chopra or Sreemoyee Gupta at totalrewards@aonhewitt.com

Talking Global Compensation



Richard Kantor is a Senior Vice President at Aon Hewitt and the leader of our Total Rewards Global Center of Excellence. He has over 20 years' of experience consulting with clients on all aspects of worldwide organizational performance, human resources strategy, cross-cultural management, and rewards strategy and design. He has worked with clients in more than 70 countries, to set global human resources and Total Rewards strategies, evaluate performance and rewards systems for strategic and cultural consistency; and design and implement talent management, performance and rewards systems.

In conversation with Richard Kantor:

Q. What in your opinion are the three topmost challenges for the compensation function today as a fallout of increasing globalization?

A. Number one is the challenge of balancing the global and local aspects. Most organizations today have a desire for global consistency in their compensation and rewards programs. In some cases, this desire is intense, and it often emanates from the very top of the organization – so it is a pressure that cannot be ignored. The desire for global consistency may be rooted in a desire to use the compensation system as a way to build a common corporate

culture, or it may be related to something much simpler, like keeping administration simple. Whatever the rationale, the pressure often is there. Of course, this often conflicts with the local market practice. Balancing these competing aims is never easy, and the appropriate answer is not always obvious.

Second, there are the challenges associated with goal setting and rewards. Chief among these is how best to ensure a reasonable degree of comparability in the degree of stretch in all of the targets, but that is closely followed by the challenge associated with identifying meaningful and measurable goals – particularly at the individual level. Of course, in the long-term incentive arena, there is also the challenge associated with trying to set multi-year goals, and this challenge is particularly acute in developing economies and uncertain economic times, such as we have seen recently. Because variable pay plans are increasingly being applied on a global basis, the need for comparability in degree of difficulty in goals takes on paramount importance in ensuring that the programs are perceived as fair.

In my view, compensation practices have largely ignored cultural differences – and I believe this may be one reason why compensation programs and Total Rewards approaches more broadly are failing to deliver superior results for organizations.

Lastly, there are issues relating to acquiring reliable and consistent market data for an ever-expanding corporate global footprint. While there are some markets around the world that are almost over-surveyed, there are others where it is difficult or impossible to find reliable, relevant market information. This leads to situations where corporate planners and business leaders need to make decision in the absence of rich information. This is where compensation often becomes more of an art than a science.

Q. Have compensation practices transcended cultural difference? What has been your experience while consulting with clients across the globe?

A. It's a great question.

In my view, compensation practices have largely ignored cultural differences – and I believe this may be one reason why compensation programs and Total Rewards approaches more broadly are failing to deliver superior results for organizations. It is too easy to identify organizations that have put in individualistic compensation systems in collectivist cultures, or hierarchical programs in egalitarian cultures, not to mention highly leveraged programs in risk-averse cultures.

Now, to be clear, I am not saying that this kind of thing cannot be done – and even be done successfully. For example, the US is – according to widely used cultural metrics – the most individualistic national culture in the world, and yet there are shining examples of team-based incentive plans that have helped to contribute significantly to business results. So, clearly, you can put in a rewards

system that runs counter to the prevailing cultural norms. For starters, we must recognize that cultural norms are just that – norms. National culture involves a distribution of behavior around the norms, usually conceived as a sort of bell curve. So, there is the possibility to recruit from within a slice of the curve closer to the tail than the mean. I believe there are cases where this happens almost systematically.

I think the question is whether you can implement compensation systems that run against the local cultural norms without taking care of the communication and management of those programs. In my view, too many organizations today, because of time pressures and other factors, are putting in such 'counter-cultural' rewards systems in the hope that the corporate culture will override the national culture. I do not believe this is wise. It may be leading to some of the sub-optimization that I believe is currently plaguing compensation programs and Total Rewards programs more broadly.

Q. Centralization vs. decentralization – where do you see the scale tipping for compensation? What do you think is the right approach for global organizations?

A. This is a pendulum that seems to always be in motion. I have been consulting on compensation for nearly 25 years now, and I have lived and worked in three global regions and consulted to clients in more than 70 countries.

Let's look at Europe: In the earliest stages of my career, I watched as organizations set up operations in Europe, usually with a very centralized model. It's funny how when you stand outside any region of the world,

The history of corporate evolution in Europe demonstrates that the pendulum on centralization-decentralization is in constant motion.

you tend to focus on the similarities that 'define' the region, but when you get inside the region for any length of time you are confronted mostly by the differences! So, after a period of time, many multinationals decentralized their European operations and replicated their organizational structure in every country. This was an era when the country head was king. Then, in the 90s, as the European Union really began to take root, those same businesses re-centralized their European operations. A strong European HQ was established, and the country operations often were scaled back to sales and service – two functions that were still viewed as needing to be delivered locally.

Consider that today in Asia, we have global extremes in economic growth rates, with China and India leading the way – if we ignore the Gulf states – and Japan probably bringing up the rear. We also see GDP of \$120 million or so in New Zealand and \$7 billion in China... and GDP per capita of about \$2,500 in Vietnam and something like 20 times that in Singapore. Of course, there is also a rich diversity of religions and languages across the region, too. Aren't there 21 official languages in India alone? So, what is 'Asia'?

I mention the history of Europe and the demographics of Asia for a reason.

The history of corporate evolution in Europe demonstrates that the pendulum on centralization-decentralization is in constant motion. I believe the lesson for HR in general and for the compensation function in particular, is to understand where the business is in this ever-changing dynamic situation, and support it appropriately. The main task

is not to be out of step with the business approach.

I mention the diversity in Asia because one of the ways that organizations often try to manage the shifting sands of centralization-decentralization, is through a regional organizational structure. This is probably more dangerous in Asia than anywhere else. As I discussed earlier, what exactly is 'Asia'? So, the trick here for compensation professionals is not to fall into the trap of thinking of global regions as monolithic. There is tremendous diversity out there. We squelch it at our own peril. If we can embrace it, we may be pleasantly surprised by the results.

Q. What are some of the things global organizations can do to manage compensation risk and ensure effective governance in a global environment?

A. Good question.

First and foremost, I think it is important to redefine how we evaluate our compensation and Total Rewards programs. For very long now, most organizations have had an almost myopic focus on what I call the 'three C's': Competitiveness, Cost and Compliance. They are concerned with questions like, "Are we playing the market? What do our programs cost? And are we breaking any laws?". This needs to be counterbalanced now with the 'three E's': Effectiveness, Efficiency and Exposure. We must ask, "Are our rewards programs doing what they were designed to do – are they effective?", "Could we accomplish the same result with less – meaning less money, fewer programs, simpler programs – are we efficient?", "And what sort of risks are we taking in order to deliver these results – what is our exposure?" Most

compensation professionals can sort out how to measure effectiveness and efficiency, even if they are not currently doing it. Risk, however, presents a different challenge.

I believe that any Rewards Risk assessment model should cover at least four risk types. First, is the Alignment Risk, which is about how the organization has designed its rewards programs – are they aligned with the strategy and other key HR programs? Second is the Execution Risk, which is concerned about how the organization delivers Total Rewards – are our rewards programs being used in the manner intended? Third is the Financial Risk, which checks how much the Total Rewards cost is and whether we are appropriately managing that cost. Last, there is the Regulatory Risk, which is about how we monitor rewards – do we have proper controls in place with respect to our rewards programs?

Having identified and assessed the Total Rewards risks, the next step would be to discuss, agree and implement mitigation strategies. Expanding the evaluation of Total Rewards programs to include efficiency, effectiveness, and exposure alongside competitiveness, cost and compliance, is one way organizations can begin to find ways to improve the return on their Total Rewards investment.

It is certainly true that multigenerational issues are having an impact on Total Rewards.

Q. How have 'Total Rewards' evolved over the last decade, particularly in APAC?

A. I am not sure whether we should call it an evolution or a de-evolution! Let me explain why I say that.

The cost of Total Rewards is usually one of an employer's largest expenses. Unfortunately, it's also often one of the most poorly managed. The return on investment that most organizations get on their investment in Total Rewards ranges from simply mediocre to appalling in some cases. Employees, including high performers, very often, do not see a future with their organization, are increasingly disengaged and are choosing to leave all too frequently. And the situation is actually getting worse. Recent evidence tells us that the corporate response to the economic downturn has exacerbated things across the spectrum.

From what I see, confusion and dissatisfaction rule the day in Total Rewards. We frequently see that more than half of the employees do not know how their pay is determined. Many employers have contributed to this by failing to communicate Total Rewards effectively. One recent study in Asia Pacific revealed that two out of three organizations have no clear set of objectives for their Total Rewards. It also showed that 80% of the organizations have either no communication plan for rewards or what they would describe as 'a very poor one'!

Clearly, there is a 'knowing-doing' gap in the Total Rewards communication. This is despite findings that effective communication can have as much impact on employee satisfaction with benefits as the actual benefits offered or the amount of money an organization puts into a benefits plan. I know of one study that found that organizations with above average benefits but ineffective communications averaged 25% employee satisfaction, while those with below average benefits but effective communications averaged 76% employee satisfaction. Put another way, it can be better to provide fewer benefits but explain them well, than to provide an expansive – and costly – package of benefits that employees don't really understand.

So, we are spending vast sums of money on complex Total Rewards packages, but employees do not understand or fully appreciate what we are providing. I believe part of the problem has to do with the complexity of rewards programs and the way organizations have added program upon program to their overall rewards package.

Q. Organizations today have to deal with not only a cross-cultural, but a multigenerational workforce – How has that, if at all, impacted 'Total Rewards'?

A. It is certainly true that multigenerational issues are having an impact on Total Rewards.

Demographics around the world are shifting. Broadly speaking, the workforce is becoming older. The percentage of Hispanics in the US is rising. There are fewer workers in the western world, but excess

supply in the developing one. China's dependency ratio – the number of children and old people as a share of working-age adults – is rising faster than Europe's. Sub-Saharan Africa is by far the fastest-growing part of the world. Today it is only slightly larger than Europe or Latin America, but it will be bigger than either by the end of the century, and much more than half the size of Asia while today it is only 20% the size of Asia. (it is now only a fifth).

Coming out of the great recession, talent is ready to move, average tenure in the US being five years. The competition for skilled knowledge workers is especially intense; they produce three times the profit as other employees. But what do they want? Baby boomers seem to want face-to-face communication that shows respect. They want an open work environment where their contributions are acknowledged and their accomplishments are recognized. You retain them by highlighting their value and contributions to the organization and by developing solutions to help them postpone retirement. Meanwhile, generation X wants communication that gets to the point and email is ok, but face-to-face is better if it is important. They want a job environment that gives them room to explore and find solutions – while having some fun, of course. They want flexible work arrangements and clear steps for advancement, or they will be looking for the door, right? And then you have the millennials... they want you to be ultra-brief in communication since they are the instant messaging generation. They want an environment that challenges them, provides and responds to

feedback quickly, and is clear about the end game for each task. You retain them by finding them a good mentor, allowing them to contribute to the community, and introducing them to new opportunities frequently. Simple, right?

What does all this tell us? A couple of things; first, if you are not segmenting your workforce in terms of Total Rewards – from recruitment methods, to attraction, to career opportunities, to retention strategies – you need to start doing so. Secondly, while the generalizations about intergenerational differences are useful, they are also dangerous. It is like generalizing about culture. There is a normal distribution around the mean. What matters is what your workforce wants. If you are not measuring engagement regularly and analyzing the data by segment, you should be. If you haven't started measuring employee preferences for Total Rewards using optimization and conjoint approaches, you are falling behind the times. Thirdly, if you aren't helping managers to deal with this issue, you are going to regret it. And, lastly, if you aren't taking different approaches to communicating to the different segments in your workforce – generational and otherwise – you really ought to be. From what I see, talent just about everywhere is ready to move.

Q. You have often spoken about the growing criticality of rewards communication as a success factor in managing global compensation. What are some of the key elements of successful communication strategies?

A. Well, I am not a communication expert, but I am a strong advocate. Here's what I believe, based largely on

my own experience, we must have: First, simple effective communication about our overall structure, policy and approach targeted to existing and prospective employees. Second, clear and concise information is required that highlights the advantages of our package to support large-scale global recruiting, and to help retain key talent. Third, regular, high quality input from employees (or managers) and prospective employees regarding their needs and wants, and level of satisfaction with the compensation and benefits we provide. Fourth, managers need to own the rewards programs, with HR playing a supporting role only. And lastly, what is required is a comprehensive communication roadmap and supporting tools and talent (HR support) to deliver.

We also must be sure to align and engage key leaders in communicating the rewards strategy. This involves building and delivering a solid business case for any changes to gain leadership support and advocacy. This means we have to equip HR leaders with tools to deliver consistent messages to business leaders. The bottom line is that you must give senior executives a role in creating broad acceptance of the rewards strategy. That is the first step in promoting accountability and informed decision making, which must then cascade all the way down to the manager who is actually having the conversations with employees every day about rewards – they are the ones who must own the programs, the line managers.

As far as traditional communication is concerned, I believe it is most effective to sequence targeted information to key audiences

providing clear, consistent messaging in engaging formats. Leaders should receive briefing sessions providing the business case, launch plans and timelines. HR professionals should have HR toolkits and training sessions to prepare HR for its role. Managers typically need briefings/ toolkits addressing how strategy impacts them and their team. And employees usually receive messages via meetings, webcasts, FAQs, and – of course – conversations with their manager. (Do you sense the recurring theme here!?) Oh, let's not forget, regular engagement surveys play a crucial role in ensuring that communication is a two-way street.

Globally, it is important for organizations to build capability by providing training to C&B teams and managers. We do know from the Best Employers Studies how crucial manager capability is, right? In building HR and managerial capability, organizations should focus on elements that drive acceptance and commitment to change, and they should clearly identify key audiences and how the new programs will impact them. Finally, I think it is best to focus on proven approaches such as marketing-oriented information, testing the changes and messages – what ever happened to pilot tests?, electronic communication, interactive educational material, personalized communication, just-in-time access to information, and so on.

But that is just my opinion. I may be wrong!



Richard Kantor

Senior Vice President, Total Rewards Global Center of Excellence, Aon Hewitt

For more information, please write to us at totalrewards@aonhewitt.com

Expatriate Compensation

The India Story

*Excerpts from the Aon Hewitt
International Assignee Policies &
Practices Study 2011*



Setting the Context

Travel to distant lands by human beings is as old as the species itself. Armies perhaps, were the first instances of large organized groups of people to travel beyond their domestic borders. Compensation to these troops was usually in kind. Later, civilizations such as the Roman Empire started compensating armies in cash as well, though the basis for the quantum salaries was not well-defined. It is thus, quite appropriate that the word 'salary' has its origins in the Latin word 'salarium', originally used to imply 'soldier's allowance for the purchase of salt', a rare commodity in ancient times. During the age of colonialism, mobilization of people overseas moved beyond the armies to include employees of organizations and the quantum of salaries was now better-defined.

More recently, as organizations expanded globally, they were faced with different business and economic environments, laws & legislations and taxation rules. Further, movements also required organizations to take into account numerous professional, cultural and family pressures that could often overwhelm the executives. Organizations therefore, needed to innovate and find effective ways of rewarding employees. Designing compensation for this category of individuals commonly referred to as expatriates, thus became a key and specialized focus area.

Indian organizations joined the globalization bandwagon in 1991 with the economic liberalization. Though some Indian organizations have been sending employees on international assignments for over 20 years, most have joined the trend recently. Most Indian organizations therefore are at a stage, where they need to devise or adopt effective ways of compensating international assignees. Multinationals too, need to get a better understanding of how they can adapt their compensation practices to work effectively in the Indian scenario.

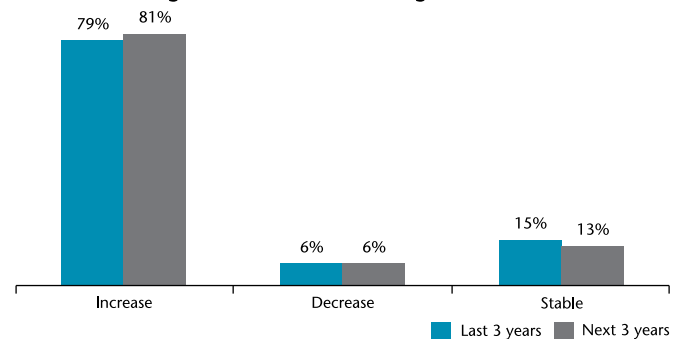
Given this backdrop, Aon Hewitt India conducted an International Assignee Policies & Practices Study to capture trends, opportunities and challenges in talent mobility across the entire lifecycle of an international assignee – before, during and at the end of the assignment, with primary focus on compensation and benefits. The study, which was conducted from January to March 2011 forms the basis of this report.

International Assignment Trends and Challenges

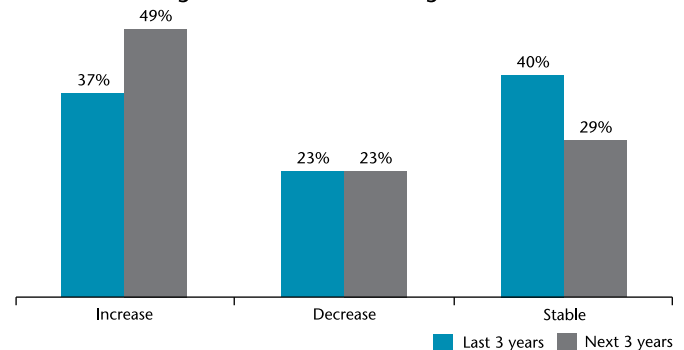
Our study revealed that despite the world being hit by global recession in 2008, international mobility to

and from India remained resilient, driven by factors such as strong economic activity in the country, rapid overseas expansion, the need to foster the desired organizational culture and sometimes the lack of locally available qualified staff. This is clearly reflected in the high percentage of organizations which either witnessed an increase or stabilization in the number of international assignments over the last three years. The outlook for the next three years both for outbound and inbound assignments is more positive.

Trends in Long-term International Assignments – Outbound



Trends in Long-term International Assignments – Inbound

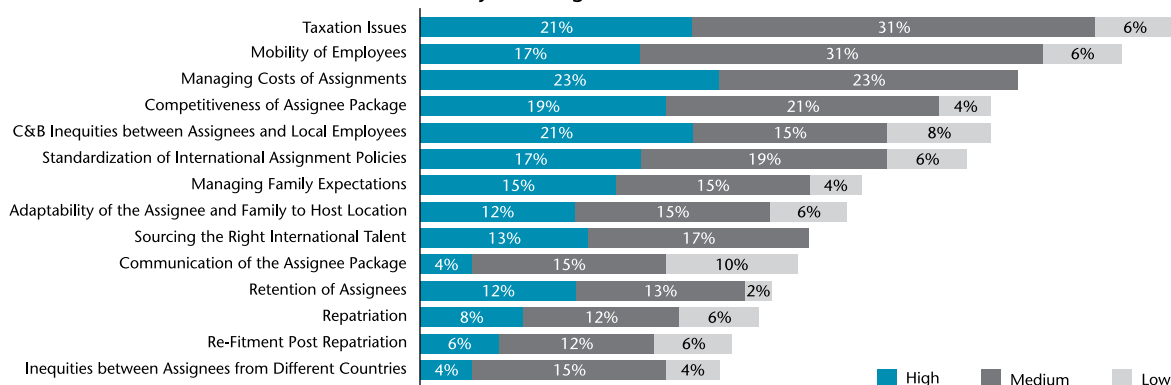


Source: Aon Hewitt International Assignee Policies & Practices Study 2011

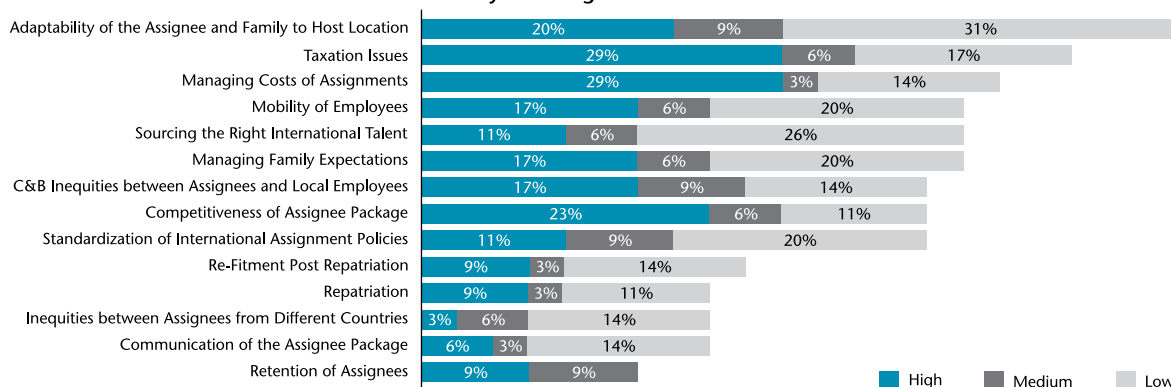
As expected, the main points of origin as well as destinations for these assignments remain North America, Western Europe and South and South East Asia. However, regions such as the Middle East and Rest of Africa figured in the Top Six destinations for movements from India, with many organizations increasingly looking at them as potential markets for investment.

It is interesting to note that whereas for outbound movements, organizations typically cited existence of employees at middle and senior management levels, for inbound movements, the existence of employees was more at the senior and top management levels. We believe that this skew towards higher levels of management for inbound assignments

Key Challenges – Outbound



Key Challenges – Inbound



Note: Multiple responses

Source: Aon Hewitt International Assignee Policies & Practices Study 2011

could either be due to the greater prevalence of skill gaps at these levels, or the desire to bring in an overall international perspective or specialized knowledge to the firm's India operations.

Most of our participant organizations continue to face multiple challenges in a globalized world. Some of the key issues cited were management of taxation, mobility of employees and managing assignment costs with the latter posing the highest level of challenge in the post recession scenario. For outbound assignments, organizations also face challenges around compensation such as competitiveness of assignees' salary packages and compensation & benefit inequities between international assignees and local employees. In case of inbound assignments, adaptability of family and assignee to the host location, sourcing the right international talent and managing family expectations figured as other key challenges, reflecting that despite the high growth and development in India in the recent years, it remains a difficult location for assignees to live and work in.

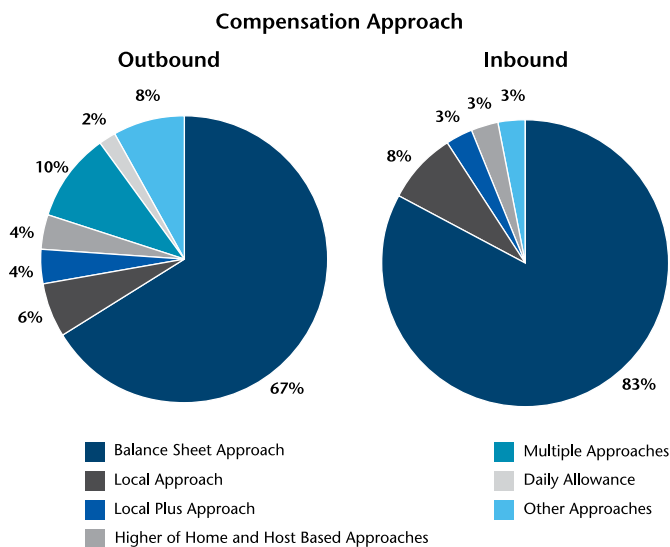
How We Reward

To address these challenges, organizations employ multiple measures, one of them being rewarding of talent effectively. A key component of how organizations manage international assignment rewards is the approach adopted to design the compensation package. The decision regarding which compensation approach to use is key as it determines not only the competitiveness of the assignee package, and consequently its acceptance by the employee, but also many other aspects such as equity with other international assignees in the organization, the market, and the firm's local employees, level of standardization, continuity of payroll/salary, ease of administration and repatriation and assignment costs.

While in our study, there clearly was a higher prevalence of one approach vis-à-vis the others, every approach has its own pros and cons. It is thus important for organizations to assess the different approaches with regards to their advantages, limitations and applicability before choosing the

compensation approach that is most appropriate for them. The following key approaches employed by our participant organizations, are evaluated below:

- Balance Sheet Approach
- Host Based Approaches (Local and Local Plus)
- Higher of Home Country Based Balance Sheet and Host Based Approaches
- Multiple Approaches
- Daily Allowance
- Other Approaches



Source: Aon Hewitt International Assignee Policies & Practices Study 2011

Balance Sheet Approach

Not surprisingly, Balance Sheet emerged as the sole approach adopted by a majority of organizations for inbound assignments (employed by 83% participating organizations) as well as outbound assignments (used by 67% organizations). All but two of these organizations use the Home Country Based variant.

One of the key advantages of a Home Country Based Balance Sheet approach is that it helps maintain a home country salary. This salary not only serves as a base for organizations to compute and continue pensions and other home country benefits linked to it, but also serves as a reference for comparisons with home country peers as well as assignee reintegration during repatriation.

The approach is highly applicable for movements to countries with lower salary levels and living standards than in the assignee's home country. Since majority of movements to India are from the regions of North America, Western Europe and South and South East Asia (typically with higher salary levels and living

standards), the Home Country Based Balance Sheet approach works well for inbound assignments.

The approach, to a considerable extent can also be used for movements to countries with higher salary levels, thus enabling standardization. However, from an Indian perspective, using the Home Country Based Balance Sheet approach especially at lower levels of employees for movements to countries with higher salary levels and living standards, may deliver a compensation package which is not competitive with local host compensation levels.

This to some extent accounts for its lower prevalence for outbound movements vis-à-vis inbound movements.

A Home Country Based Balance Sheet approach has other limitations:

- It is complex to understand, compute and administer
- It is not market-linked at the host location i.e. it neither takes into account the importance of the employee's role in the host location, nor the salaries paid by competition
- The approach tends to deliver higher compensation packages for employees moving from high salary countries such as the UK vis-à-vis those moving from low salary countries such as India, when moving to the same overseas location. Few organizations mitigate this by using variants of the Balance Sheet, notably the Headquarters Based Balance Sheet (employed by two of our participant organizations both for inbound and outbound assignments), which entails providing to assignees of all nationalities, the Balance Sheet package designed for movements of their peers from the company headquarters. This approach may, however, increase the organizational costs and discourage repatriation, especially in case of assignees moving from low salary countries
- Allowance and benefit data for a location or combination of locations, procured from different global mobility data-providers may at times vary significantly, since methodologies employed and data sources used by these organizations may vary

The Balance Sheet approach has few variants, the most-widely used is the Home Country Based Balance Sheet approach, which protects the employee's home purchasing power when assigned to an overseas location. The basic principle of the approach is on ensuring that the standard of living of an employee in his/her host location (location to where he/she moved) should remain the same as that in his/her home location (location from where he/she moved). The approach entails arriving at the compensation package of the assignee in the host country by taking into account differentials in cost of living and taxation between the home and host locations, as well as adding premiums and incentives such as hardship premium and foreign service premium, on top of the assignee home country salary.

Despite these limitations, the advantages of a Balance Sheet approach far outweigh its disadvantages and hence, account for its high prevalence.

The extent to which the Balance Sheet scored over other approaches was however surprising, as though it is highly employed by multinationals, traditionally, Indian organizations have used other approaches such as Local, Local Plus, hybrid or at times even negotiated packages. This could to some extent be attributed to the fact that most of our participant Indian organizations have assignee movements to and from countries with both higher and lower salary levels vis-à-vis India, and thus employ a Balance Sheet which works well for a majority of these movements.

Host Based Approaches

Host Based approaches are primarily of two types: Local and Local Plus. While a Local approach entails pegging the salaries of international assignees to host country local levels, a Local Plus involves offering additional benefits such as housing assistance, education assistance and home leave, over and above the local salary levels.

Though Local or Local Plus approaches are used standalone by only 10% organizations for long-term outbound assignments from India, it is important to note that another 14% organizations employ at least one of these along with other approaches. Approximately 11% of the organizations use Local or Local Plus as the sole approach for long-term inbound assignments to India, another 3% organizations employing them along with the Balance Sheet approach.

Host Based approaches have considerable applicability for movement from India to countries with higher salary levels and living standards. These approaches also have the advantage of being market-linked in the host country. Further, Host Based approaches also ensure that all international assignees in the assignment location are paid similar levels of salaries, thus ensuring equity in compensation.

From an organizational perspective, these approaches are easy to compute and administer. The Local approach also generally works out to be more cost-effective as compared to other approaches. Moreover, it is well-suited for permanent transfers, since it pegs the assignee salaries in line with the local salary levels.

These approaches, however, sometimes fail to incentivize assignees enough to take up international assignments. They also don't facilitate maintenance of a home country salary, and therefore lack a base

for computation of pensions/retirals and other home country benefits linked to it, which may thus be more difficult to maintain. Further, Local and Local Plus approaches have limited applicability for movements to India from countries with higher salary levels since assignees in most cases are unwilling to take pay cuts.

Usage of one of these as the sole approach for outbound assignments is mostly prevalent in the IT sector, since many IT organizations in India primarily have assignee movements to countries with higher salary levels and living standards.

Higher of Home Country Based Balance Sheet & Host Based Approaches

This approach entails computing the assignee package using both a Home Country Based Balance Sheet approach and a Host Based approach (Local/Local Plus) and using the higher of the two.

From an employee viewpoint, this is a progressive approach since it ensures not only that the standard of living of the assignee in the host location is at least the same as that in the home location, but also that the assignee compensation level is at least as high as host country local levels.

From an employer's perspective, however, the costs of this approach are higher as compared to both the Home Country Based Balance Sheet approach and Host Based approaches, when employed in isolation. Moreover, assignees on this form of approach may be reluctant to repatriate to their home countries with lower levels of salaries.

This form of the compensation approach is used by around 4% organizations for outbound assignments and 3% organizations for inbound assignments.

Multiple Approaches

This implies usage of multiple compensation approaches, the choice of approach depending on factors such as assignment location, duration or objective.

There are many variants of this approach:

- Using a Home Country Based Balance Sheet approach for movements to countries with lower salary levels or living standards, and a Local or Local Plus approach for movements to countries with higher salary levels or living standards. This approach ensures that the salary levels remain competitive in both forms of movements. However, it involves managing the complexities of two separate salary systems running side-by-side

- Applying different methodologies depending on the assignment location and duration, primarily to make the most of any tax advantages. The advantage of this approach is its cost savings; however, it leads to non-uniformity in the application of policies and challenges in mobilizing individuals from one assignment location to another
- Employing different methodologies for separate business units. This approach, though based on business rationale, causes inequities and non-standardization in the application of policies. Further, it may deter movement of assignees between business units

Around 10% organizations stated using multiple approaches for outbound assignments.

Daily Allowance

This involves maintaining continuity of the assignee salary in the home country and payment of a daily allowance or per diem to take care of assignee host country expenses.

The approach ensures continuity on home country payroll, however, which can become very expensive. It is more prevalent for compensating assignees on short-term assignments such as those upto six months or a year. Only 2% organizations stated using this form of payment for outbound assignments and none for inbound assignments.

Other Approaches

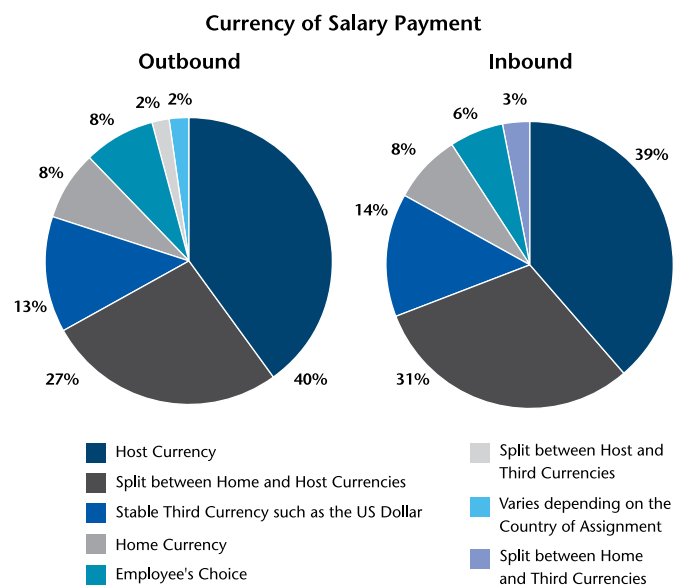
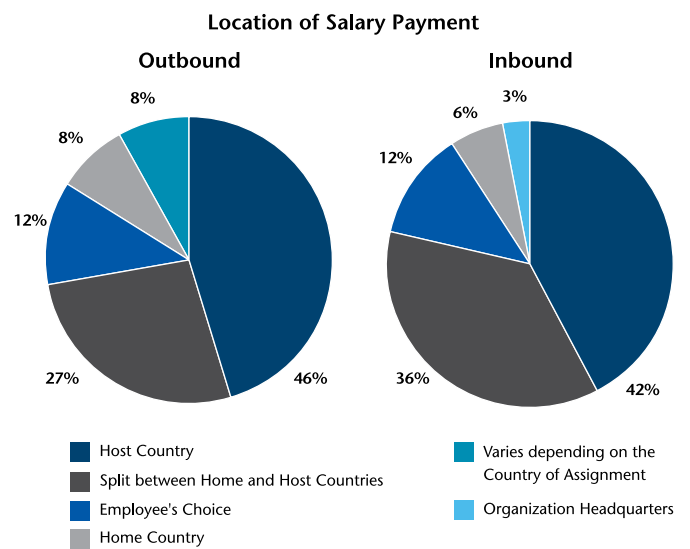
Some organizations compensate their assignees through other forms of approaches:

- Approaches employed by some Indian IT organizations, characterized by innovative ways of arriving at the assignee compensation packages, taking into account multiple factors such as host country salary levels, external benchmarks, cost of living differentials, taxation and employee skill sets, among others. These methodologies each have their own advantages and disadvantages, however, have a common base of taking into account both the cost of living differential and the host salaries, to arrive at the assignee compensation package
- Continuity of home country salary with payment of a Cost of Living Allowance (COLA) to cover host country expenses. This approach helps maintain continuity on home country payroll, however, is not linked to the market in the host country. Further, if limited elements are factored into COLA, it may not incentivize the employee enough

- Paying to all assignees, salaries equivalent to those of their local peers in the company headquarters. This approach ensures equity in the compensation of all assignees; however, it neither links the assignee salaries to the market in home location nor to that in the host location

These approaches were employed by 8% organizations for outbound assignments and 3% organizations for inbound assignments.

Where We Reward



Source: Aon Hewitt International Assignee Policies & Practices Study 2011

It is also important to make a note of where and in what currency organizations pay their assignees. Many organizations pay the assignee salaries in the host country

(around 42% in case of inbound assignments and 46% in case of outbound assignments). This, apart from the obvious reason of salary payment in the location that the assignee would incur expenses in, also facilitates ease of administration and prevents complexities arising due to the salary payment in more than one location.

A significant percentage of organizations (36% for inbound and 27% for outbound assignments) do, however, split salaries between the home and host countries, primarily to maintain continuity on home country payroll. Few organizations also provide a choice of the salary payment location to the assignees primarily to enable them to cover any home country commitments.

Currency of salary payment closely mirrors its payment location with the highest prevalence of its payment in the host currency, followed by a split between the home and host currencies. Few organizations make all payments in a third currency such as the US Dollar, primarily to meet corporate or accountancy requirements.

Finding a Way Through the Maze

There is a plethora of choices of compensation approaches that can be adopted for long-term international assignments, each with its own advantages and shortcomings. Coupled with the considerable number of data-providers/research firms, each with its own set of frameworks and methodologies, advising organizations on their global mobility requirements, it is therefore not surprising that for organizations undertaking international assignments

for the first time, zeroing in on the right compensation approach can appear to be a daunting task.

The question thus remains as to which are the best compensation approaches for long-term assignments to and from India. Unfortunately, there is no one answer. The compensation approach is typically decided taking into consideration a host of factors such as assignment objective, assignment costs, organization's compensation philosophy, mix of home and host locations, international assignee demographics, desired extent of standardization, internal equity with locals and international assignees both within the company and the market, ease of administration, repatriation and continuity of payroll and home country benefits.

In our study, standardization, equity with other international assignees within the organization and acceptance of the assignments by employees emerged as three of the top four reasons for the choice of compensation approach by organizations for both inbound and outbound assignments. Whereas continuity of payroll was also considered important in case of inbound assignments, for outbound assignments ease of repatriation served as another key reason for the choice of compensation approach.

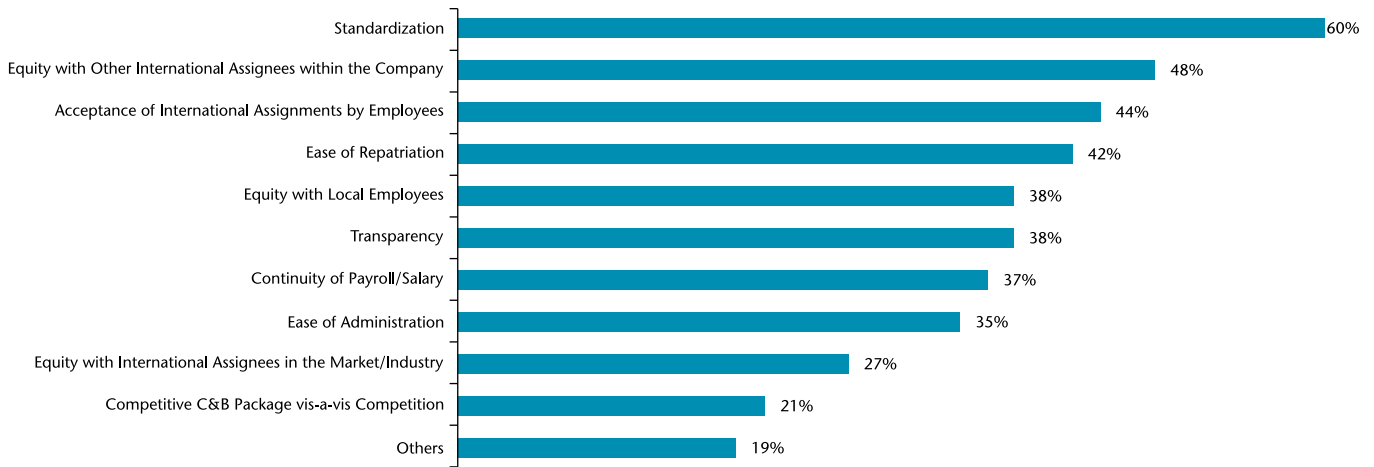
Having said that, for movements to and from India, we firmly believe that organizations should adhere to two basic thumb rules while firming up assignee compensation packages for long-term international assignments:

- The assignee's standard of living in the host country should at least be the same as that in the home country

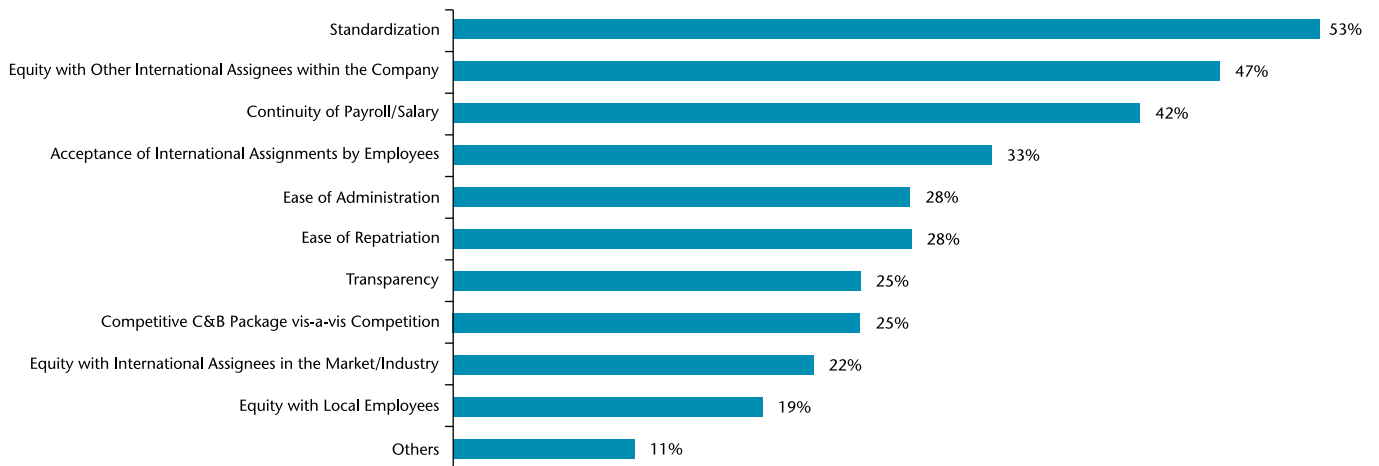
The compensation approach is typically decided taking into consideration a host of factors such as assignment objective, assignment costs, organization's compensation philosophy, mix of home and host locations, international assignee demographics, desired extent of standardization, internal equity with locals and international assignees both within the company and the market, ease of administration, repatriation and continuity of payroll and home-country benefits.



Reasons for Specific Compensation Approach – Outbound



Reasons for Specific Compensation Approach – Inbound



Note: Multiple responses
Source: Aon Hewitt International Assignee Policies & Practices Study 2011



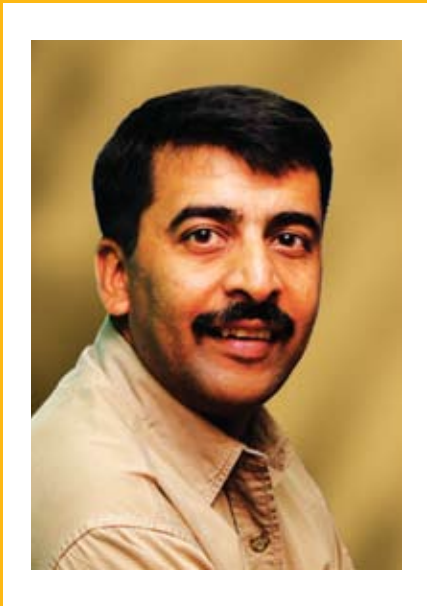
- The assignee’s compensation level should at least be competitive with host country local levels. At the same time, organizations do need to take into account various other factors mentioned above to determine the most appropriate compensation approach beneficial both to the assignee and the organization. What is important for one organization may not be important for another. There is thus no ‘right’ approach, only the best-fit for each organization.



Kartik Rishi

Solution Leader – Expatriate Compensation,
Aon Hewitt, India

For more information, please write to us
at totalrewards@aonhewitt.com



Piyush heads the Global Human Resources Function of Genpact and is a member of the Genpact Leadership Team. He has played an active role in the organization's journey to becoming an Employer of Choice. With over 19 years of experience in the Human Resources function, Piyush has contributed to various aspects of people management in both business and corporate roles, including Employee Relations, Organization Capability Building, Merger & Acquisition Integration and managing the function for P&Ls and geographies.

Piyush Mehta

Head, Global HR Function, Genpact

Q. Genpact has nearly 50,000 employees with operations in 13 countries. Given the diversity in these economies, how do you harmonize HR, and in particular rewards practices to ensure employees a fair, reasonable and consistent experience?

A. Our broad HR strategy for Genpact is a blend of standard global practices and region-specific practices. We set the macro level HR agenda and goals globally at the beginning of the year which is tied to our business imperatives and the operating plan. We have developed a set of HR practices (in a Common Minimum practice framework) that is implemented across regions/businesses and reviewed with operational rigor.

The focus is not only on output metrics like employee attrition and satisfaction, but more importantly on what drives these end results. For example, we have identified best practices like attrition forecasting, pre-hire orientation (to reduce early attrition), high impact touch points, etc. through internal analysis using various six sigma tools. These practices are owned by operations and facilitated by HR... this ensures commitment from the operating teams. We do this every time we set up a new site, irrespective of initial size/scale – this focus on driving HR metrics and reviews has helped build a harmonized HR ecosystem at Genpact. We also provide short-term rotational assignments to HR employees to facilitate best practices sharing and as a development opportunity for themselves.

Genpact rewards practices are linked to our overall compensation philosophy and business agenda.

Our local rewards policies in the geographies that we operate in are in line with the law and practice of the land. However, what remains constant across is the philosophy – strong variable pay culture and broad banding. So the total value proposition to employees globally remains comparable, i.e. compensation, benefits, learning and career development opportunities.

Q. Wage arbitrage, cost of operations amongst others, are the key considerations for the outsourcing business. How does this impact your affordability to pay market competitive salaries across the diverse set of countries that you have significant operations in?

A. There are two ways to approach this. Cost of operations is an important consideration... but it is not the only key issue for clients. The ability to go up the value chain, and deliver high quality solutions for the challenges clients face are really the key here. So we are tackling this through:

- Depth and breadth of expertise acquired over the last 13 years in the global business process and technology management industry
- We are building a new 'Science of Process', which is helping our clients realize significant business impact through process effectiveness
- We will continue to innovate with next-level business process management and invest in comprehensive technology-driven solutions, to enable smarter business outcomes for our clients

Genpact: Making Rewards Work

Labor arbitrage does impact us by putting pressure on costs. However, the key is to invest in employee training, development and up-skilling programs. Employee compensation (cash) is only one aspect of our total value proposition as an employer of choice. We focus on building and developing talent through our 'Make & Build Programs' which are essentially developing domain expertise internally... this is not as easy to replicate in the market and therefore provides a sustainable employee value proposition.

Q. The most challenging and perhaps the most important issue for global organizations is managing pay for their top executives. Can you share with us your experience and key factors that have made your executive compensation program a success. It will also be interesting to understand how you have effectively leveraged long-term incentive plans as a part of the Total Rewards strategy for this population.

A. At Genpact's executive level, equity compensation dominates the Total Rewards pie. Equity compensation plans provide a significant wealth creation opportunity but we also understand that they do not solve for immediate cash compensation. Therefore, our philosophy is to keep the cash compensation at or slightly above median. Equity compensation allows us to create a strong linkage with company performance and shareholder

value, as well as, builds long-term retention. Our long-term incentive plan is based on a combination of stock options, restricted stock unit plans and performance share plans (full value awards) which help us create and drive a shared agenda for driving business growth. There is a huge involvement of the leadership and our board to ensure we select the right set of employees, put up challenging performance criteria and select the most appropriate grant type for various groups of employees.

Q. With a NYSE listed stock, how do you manage the expectations of your executives in India, who compare locally and would have anticipated a better return with a locally listed stock?

A. Employees who are covered through our equity plans recognize that the equity compensation is market-linked and each economy will go through its highs and lows... these are cyclical and considering that this is long-term incentive, we don't change our compensation plans due to this.

Q. How did you manage the 2009 slowdown in terms of expectations on salary increases, bonuses and promotions, and how did your actions vary for different markets?

A. We have always driven a strong performance culture in the organization and that continued in the uncertain economic environment too. Since our performance did not

meet expectations, bonuses were reduced for the Top 100 employees in the organization. However, the total compensation for the larger employee base was protected to a very large extent. Cost was an issue but we focused on driving cost efficiency and productivity during the slowdown. For instance, we restricted spends on travel and living, additional staff expenses, etc. but we did not impact staff compensation, specifically at the associate and manager levels. We did not approach this effort as a top down directive but went to the employees through an 'Idea' campaign on ways to become efficient and lean – this helped increase the buy in and focus our efforts on areas that had limited impact on employee welfare.

Q. What are the top three learnings that Indian organizations can take away from Genpact's experience in order to successfully manage global compensation?

- A.**
1. Equity linkage to performance through performance share plans
 2. Long-term view to the compensation strategy, especially at executive levels
 3. A unique value proposition to employees which includes Total Rewards, opportunities for career progression and constant learning and development

For more information, please write to us at totalrewards@aonhewitt.com

Upcoming Insights

Salary Increase Survey
Phase 1: June-September
Phase 2: November-March

One of the most exhaustive studies in the area of performance and rewards in India. The study measures actual and projected salary increases, variable pay and performance data across employee categories.

India Total Compensation Measurement™ (TCM) Survey, April-October

Aon Hewitt's Total Compensation Measurement™ (TCM) survey serves more than 7,000 organizations in over 40 international markets globally. The survey provides access to competitive pay data as well as plan design features for base salary, bonus, long-term incentives, benefits and perquisites.

Variable Compensation Measurement Study, May-August

Launched for the first time in India, Aon Hewitt's Variable Compensation Measurement Survey is the only annual broad-based study capturing unique plan characteristics for cash and special recognition.

Executive Compensation Study, July-October

This is a first-of-its-kind study launched in India by Aon Hewitt. The study provides organizations with access to rich analysis of data and practices in executive compensation.

International Assignee Policies and Practices Study, December-February

A comprehensive study capturing details of International Assignment Policies and Practices. The study is the first-of-its-kind in India to focus on different types of compensation approaches and their applications.

India Telecom Forum, October-February

One of the flagship studies in the telecom sector that captures cash and benefits information across 170 positions.

SIAM Automobile Forum Compensation Survey, August-January

A study of all auto manufacturing organizations covering compensation data across levels and functions of management. It also serves as a platform for sharing best practices.

India FMCG Forum, June-December

The forum brings together all major MNC & Indian FMCG organizations to benchmark their positions, levels and benefits across the industry.

Clinical Research Forum, August-November

The study covers leading clinical research organizations providing robust and comprehensive information on cash compensation, benefits and industry trends.

IT Industry Study, June-September

Launched in 2001, this study provides robust and comprehensive information on cash compensation, benefits and industry trends.

ITeS Industry Study, July-October

A comprehensive study that covers 500+ positions across 60+ job families. The study also includes detailed benefits and compensation best practices benchmarking across domestic and international businesses.

Indian Semiconductor & EDA Forum (ISEF), July-September

Rewards/HR Managers of leading semiconductor & EDA companies have come together to form a rewards forum for conducting a comprehensive, co-sponsored rewards benchmarking survey.

McLagan – Banking & Financial Services Insights

India Banking Forum Study, May-October

A study for all major Indian and MNC Banks to come together to share and benchmark their positions and levels across the industry.

Capital Markets Forum Study, March-August

A benchmark study conducted for large MNC & Indian Institutional Securities firms covering equity capital markets, debt capital markets and investment banking job families.

Investment Management Forum Study, June-October

A flagship study in the asset management sector covering key job families like fund management and sales.

Private Banking Forum Study, June-September

A study covering large Indian & MNC private wealth management organizations to benchmark key roles across functions.

Life Insurance Forum Study, September-January

A study of the largest life insurance players in India covering positions across all channels of distribution and key corporate functions.

Retail Broking Forum Study, November-February

A study covering Indian & MNC retail brokerage organizations to benchmark positions across sales, PMS and other functions.

Private Equity Forum Study, August-November

A study of private equity players covering key positions across fund management roles.

NBFC Forum Study, December-March

A study of large NBFCs covering 100+ unique roles.

For more information, please write to us at totalrewards@aonhewitt.com

Aon Hewitt Best Employers in INDIA 2011

Aon Hewitt recently concluded the seventh Best Employers in India study and felicitated 'the Best' on April 29, 2011 at the Leela, Gurgaon. The felicitation ceremony, which was preceded by a Learning Conference, brought together over 300 HR and business professionals. The Best Employers Study 2011 recognized the following organizations as the Top 25 in India:

1. *Hindustan Unilever Limited*
2. *Aditya Birla Group*
3. *LG Electronics India Private Limited*
4. *Godrej Consumer Products Limited*
5. *Bharti Airtel Limited*
6. *NTPC Limited*
7. *Becton Dickinson India Private Limited*
8. *Aircel Limited*
9. *Wipro Limited*
10. *Marriott Hotels India Private Limited*
11. *Kotak Mahindra Bank Limited*
12. *Scope International Private Limited*
13. *Dr Reddy's Laboratories Limited*
14. *Whirpool of India*
15. *Canon India Private Limited*
16. *Maruti Suzuki India Limited*
17. *Ford Group*
18. *Tata Teleservices Limited*
19. *Mindtree Limited*
20. *NIIT Limited*
21. *Tata Steel Limited*
22. *Jubilant Foodworks Limited*
23. *Cognizant Technology Solutions*
24. *FirstSource Solutions Limited*
25. *Aegis Limited*

The study, which saw the participation of 200 organizations and represented a workforce of over eight lakh employees in India, involved three key stages:

1. Data gathering through various diagnostic tools
2. Onsite audit (for random sampled organizations)
3. Judging of organizations by a panel of independent judges

The study, which is the largest single source of employee and human capital research across the country, showed that 'the Best' are achieving superior business results through better execution of people programs, more investment in high quality HR staff and more rounded HR skills development. Another key insight from the study indicated that the size of the organization had nothing to do with being a Best Employer. The Top 25 Best Employers included organizations from various sectors, including banking, manufacturing, IT & ITeS, telecom, hospitality, FMCG/FMCD, with workforce ranging from less than 1,000 to over 70,000 employees. The key factor for making it to the list is the ability of the organizations to connect between organizational direction, employee expectations and people practices.

Rakesh Malik, Project Director, Best Employers in India 2011 Study and Practice Leader, Organization Consulting at Aon Hewitt India said, "Best Employers in India represent organizations that have done an outstanding job of aligning people strategy with articulated business strategy. 'The Best' have been able to offer a compelling career proposition to their employees in a high performing work environment that differentiates needs, expectations and drivers of different employee segments."

For insights and reports, please mail us at bestemployersindia@aonhewitt.com

Executive Pay and Benefits Trends

Participate in Aon Hewitt's Annual Executive Compensation Study

Understand, Analyze and Benchmark

We are proud to announce the launch of the second edition of the Aon Hewitt Executive Compensation Study.

The first edition of this study was successfully completed in early 2010. More than 65 Indian organizations participated by sharing their top executive compensation, benefits and incentive data with Aon Hewitt.

This year, the survey plans to cover a wider cross section of organizations and aims to analyze executive annual and long-term incentives as well as benefits practices in even greater depth. The survey aims to provide participants analysis on compensation, benefits and incentives for 19 different positions that exist in the top two layers of an organization.

Participation in this survey is free of cost.

All participants will receive a complimentary summary.

To confirm your participation, please write to totalrewards@aonhewitt.com with the subject: **Aon Hewitt's Executive Compensation Study 2011.**

