

HARRT at UCLA

HUMAN RESOURCES ROUND TABLE
Since 1986



THE NEW FACE OF HR:

New Perspectives, New Opportunities

April 29, 2015

TOWERS WATSON





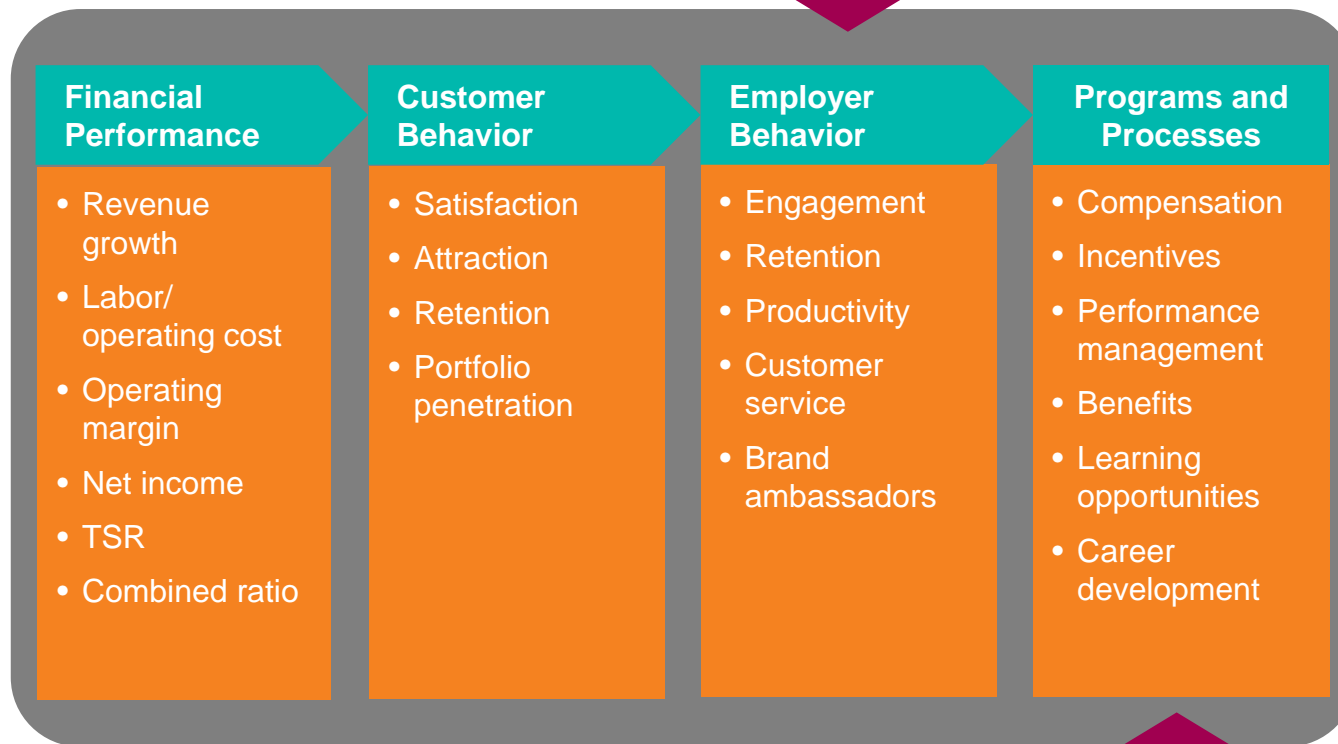
GETTING THE PAY THING RIGHT

Why Many Companies Fall Short on the Delivery of Pay Programs and What to Do About It

Connection is Essential



“GIVE”
(Company’s Expectations)



An effective program begins with and understanding of the company’s business, employee behaviors...



“GET”
(Employee Experience)

The Pain Points



Poor communication



Employees

Barely half (**52%**) say their company does a **good job of explaining** their **pay programs**.



Employers

Only **53%** say their employees **understand how base pay is determined**.

Unclear pay-for-performance link



Employees

Less than half report a **clear link** between **pay and performance**.



Employers

Only about **half** say **managers are effective** at fairly reflecting employees' **overall performance** in their **ratings**.

Ineffective managers



Employees

A low **45%** say their **managers are effective** at fairly reflecting **performance** in their **pay decisions**.



Employers

Only **51%** regard their **managers as effective** at fairly reflecting **performance** in their **pay decisions**.

Source: 2014 Towers Watson Global Talent Management and Rewards Study - Global

Differentiation is Difficult



Differentiation levels

Merit increase ratio of far exceeded to partially met expectations



STI funding ratio of far exceeded to partially met expectations



■ 2007 ■ 2010 ■ 2014

Ratio represents the median for top performers relative to the median for employees who partially met expectations.

Source: 2014 Towers Watson Global Talent Management and Rewards Study - Global

What Is the Key to Effective Program Delivery?



What highly evolved organizations do differently

- Communicate effectively how base pay and STIs are determined
- Equip managers to execute pay programs well
- Differentiate base pay and STIs based on performance

Base pay

Employees understand how their base pay is determined



Our managers execute our base pay program well



STI programs

Employees understand how their STI payouts are determined



Our managers execute our STI programs well



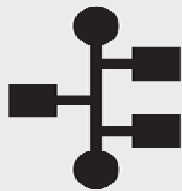
■ Tactical ■ Highly evolved

Source: 2014 Towers Watson Global Talent Management and Rewards Study - Global

Some Answers



How to Improve the Delivery of Your Base Pay and STI Programs:



Implement the right infrastructure. A globally consistent job architecture with a formal job-leveling program and associated scaled competencies serve as the foundation for reward program design and delivery, starting with base pay and STI programs.



Differentiate employee reward programs based on performance.

It is especially critical to differentiate reward programs for key employee segments to attract, retain and engage critical talent.



Equip your managers. Ensure managers have the tools, training and skills necessary to fairly reflect performance in pay decisions, and to have effective reward and performance discussions with employees.



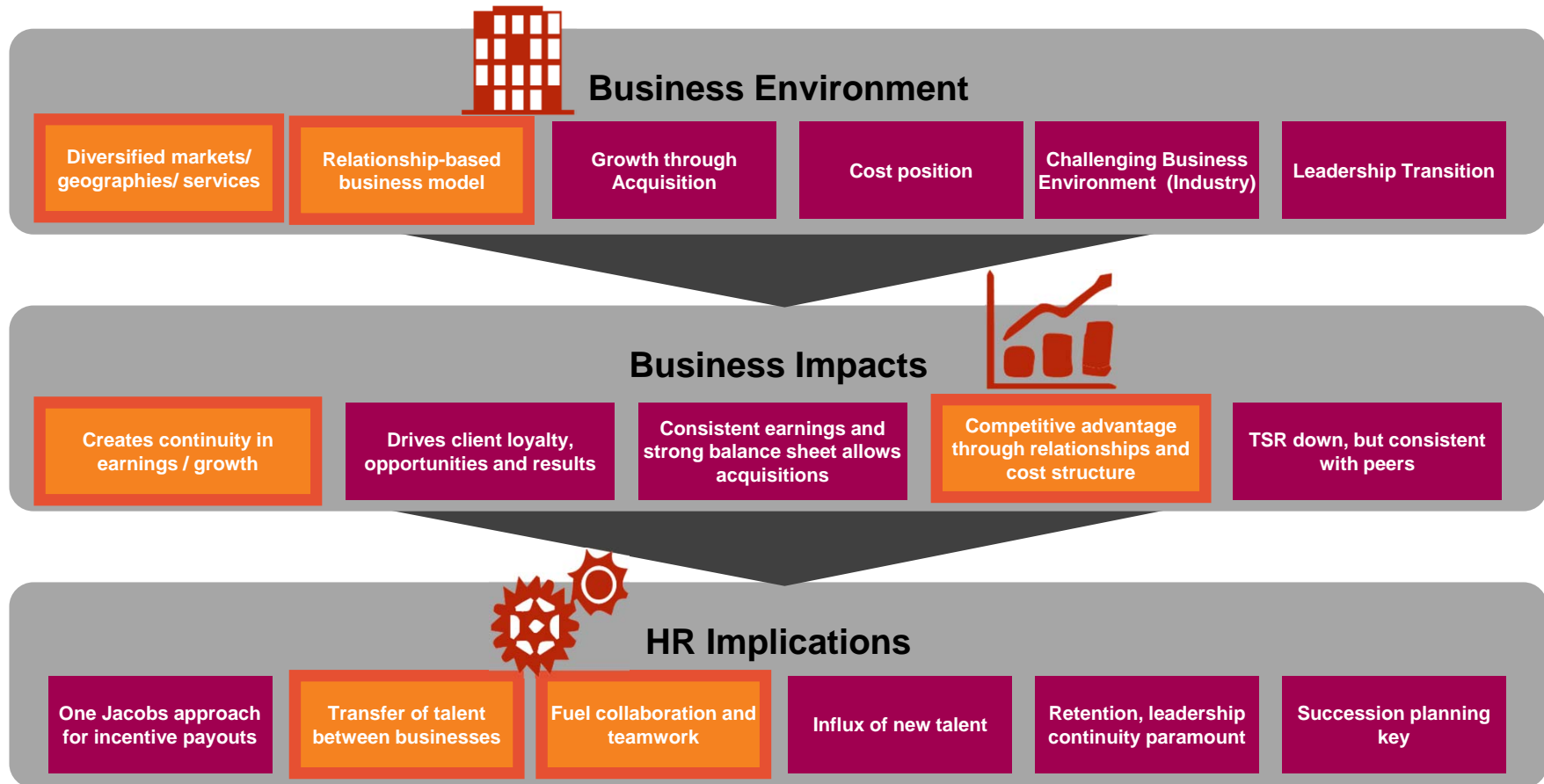
THE CLIENT EXPERIENCE

How Other Companies and HR Teams are Rising to the Challenge

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Jacobs' Environment



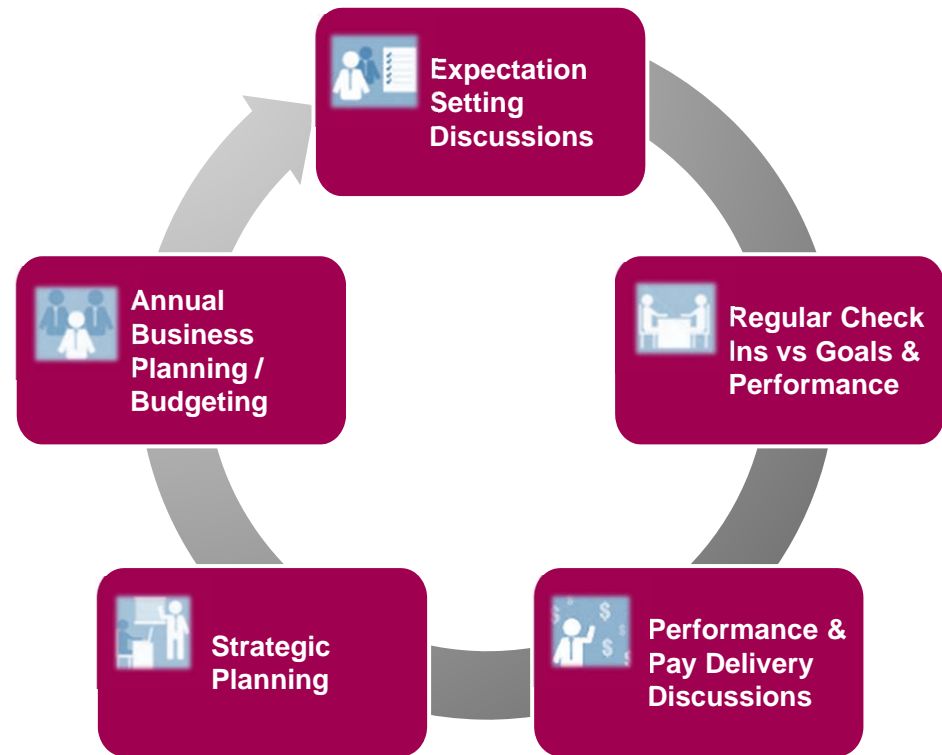
Leading with the Business Perspective



But, what about compensation **delivery**?



If you are having the conversation about business results and performance **ONLY** when you are delivering compensation, you are having the conversation **too late**



Jacobs' Journey to Getting the Pay Thing Right



Approach

Phase I (January 2014): FY 2014/2015 Awards

- Comprehensive compensation review and audit for global leadership roles
- Discussion on compensation and benefits philosophy and alignment to long-term business objectives
- Design / admin changes (eligibility of annual vs discretionary awards, payout timing, vesting, share vs value)

Phase II (Now): FY 2015/2016 Awards

- Review incentive program eligibility and incorporate global leveling/grading initiative
- Ensure plan design is connected to business objectives
- Evolve “pay for performance” alignment of goals, timing and communication

Next Steps

Phase III (January 2016): FY 2016/2017 Awards

- Addition of benefits purview for a TR holistic perspective

Phase IV (Future): FY 2017/2018 and Beyond

- Bring employee POV (engagement) and Company POV (business priorities, relative costs and ROI) together
- Determine what the most “impactful” package looks like by employee segments



THE CLIENT EXPERIENCE

How Other Companies and HR Teams are Rising to the Challenge

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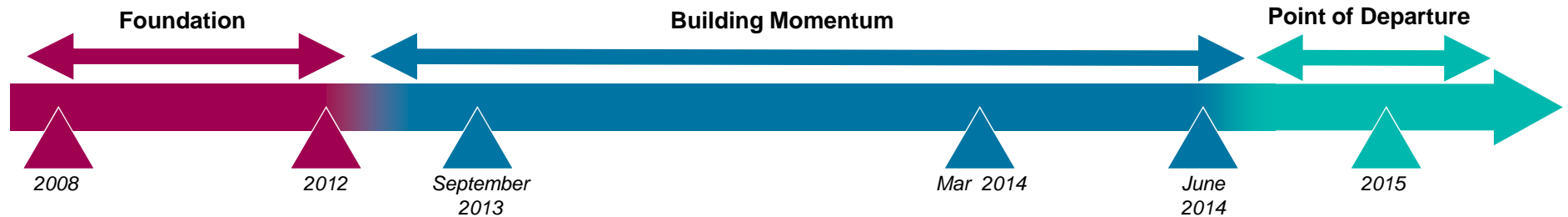
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The “Business Case” Whence We Came



OUR RECENT PATH



2008 -2012	September 2013	2014 to Present	June 2014
Business had become too diverse and complex over the last few years	Turnaround strategy developed combining growth-oriented (“offense”) and cost effectiveness (“defense”) initiatives	Build out of a Global Executive Leadership Team with a focus on execution of articulated turnaround strategy	Lack of an overall company-wide total compensation philosophy in support of turnaround strategy and with clear linkages to financial performance

- Approach
- Outcomes & Actions

Billabong's Journey to Getting the Pay Thing Right

Approach

- **Phase I (60 Days): Short-term Incentive Program**
 - Assessment against market
- **Phase II (30 Days): Total Pay Mix (Base, STI, LTI)**
 - Solidify the “go forward strategy” for any redesign



Billabong's Journey to Getting the Pay Thing Right



OUTCOMES & ACTIONS

Phase I: STI

- ✓ Streamline the STI plans across the organization
- ✓ Provide a more globally consistent performance measurement process
- ✓ Reassess both financial and non-financial KPI metrics
- ✓ Target variable compensation towards employees who can influence outcomes
- ✓ Create consistent target STI award opportunities by employee level for similar levels
- ✓ Set rigorous STI goals - emphasizing a pay for performance culture
- ✓ Provide appropriate line of sight in STI goals
- ✓ Maintain a discretionary fund to recognize outstanding employees

- **Balance STI plan funding approaches**

Phase II: TOTAL PAY MIX

- ✓ Create and adopt global Guiding Principles for go-forward pay decisions
- ✓ Target market competitive total pay mix for new hires
- ✓ Build leader/employee understanding of global compensation principles

- **Create global salary structures based on market median**
- **Consider more emphasis of LTI**