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- Contribute to business-strategy development that leads to superior organizational performance.
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Factors Affecting the Long-Term Success of Skill-Based Pay
Gerald E. Ledford Jr., Ph.D., Ledford Consulting Network LLC

In this paper, skill-based pay (SBP) is defined, and the history of SBP is reviewed. A study of SBP plans in nine manufacturing plants addresses the conditions associated with long-term SBP survival and success. These factors include results, support systems, recertification processes, redesign capability, sustained leadership and the ability to price SBP to market.

Overcoming the Challenge of Aligning Skill-Based Pay Levels to the External Market
Judy Canavan, HR + Survey Solutions

Determining competitive market rates for skill-based pay (SBP) systems has been a mystery to many compensation professionals. The paper provides an overview of potential approaches for determining external market pay levels for SBP. The reader is then provided a step-by-step process for developing competitive market rates for SBP using a common tool—published compensation surveys.

HR and Sales: A Strategic Partnering
Jason Jordan, Mercer I Karen Piercy, Mercer

The HR function is undergoing a strategic transformation, shifting its focus from internal operations to business results. Studies point to HR’s evolving capacity to deliver on its strategic promise by learning to partner with sales. This paper explores this partnership.

Global Factors Influencing Work-Life Policies and Practices: Description and Implications for Multinational Companies
Beth A. Heinen, ICF International I Rebecca R. Harris Mulvaney, Ph.D., ICF International

The prevalence of multinational corporations has created a need to understand how national differences impact the need for and success of work-life practices across different countries and cultures. The major factors influencing employees’ work and personal lives in any country are discussed, followed by a discussion of specific directives to aid multinational corporations in understanding which work-life policies and practices will be effective in various cultures. These methods provide a solid work-life foundation to allow multinational companies to be competitive.
Stewardship-Sequenced Payout of Bonuses: Considerations for Implementation
Timothy S. Clark, The George Washington University I Balaji Krishnamurthy, Ph.D., LogiStyle

Stewardship-sequenced payout (SSP) distributes bonus funds to successive tiers of stakeholders according to increasing responsibility for sufficient funding or shortfalls, to the extent of available funds. With reference to one successful implementation and examples of results scenarios, this paper addresses the viability and applicability of certain attributes of SSP for a variety of organization types and presents steps for implementing and gaining value from the methodology.

Linking Rewards with Organizational Culture
Frank Giancola

Reward systems are an important characteristic of an organization’s culture, since they define key exchanges in the employment relationship between employees and the firm. By managing these exchanges, total reward professionals play a significant role in supporting and changing an organization’s culture. To add value to this process, they must recognize and describe corporate cultures, and design and communicate compatible reward programs.

WorldatWork Journal 2007 Index of Papers
An index of papers that were published in the WorldatWork Journal in 2007.
Factors Affecting the Long-Term Success of Skill-Based Pay

During the past 20 years, skill-based pay (SBP) went from being a fad to a familiar and relatively common reward system. SBP probably will not rival more traditional compensation systems in popularity for the foreseeable future, yet it is likely thousands of U.S. organizations are using it today. Years of experience with and research on these plans have answered many questions about this type of plan. Compensation professionals know a great deal about the forms these plans take, the major design issues in creating SBP, why organizations choose SBP and the level of effectiveness of SBP. However, some major questions remain.

Specifically, what are the long-term survival prospects for skill-based pay plans, and what explains their long-term survival or demise? Until recently, it has been difficult to answer questions about the long-term success and survival of SBP because so many plans were adopted in the 1990s. SBP’s survival depends, in part, on the long-term effectiveness of SBP plans. However, the issue is broader. Companies often abandon successful innovations or maintain unsuccessful ones for social, legal and political reasons. If SBP plans can survive and remain
successful for many years, practitioners can be more confident in these plans’ value, and SBP advocates can foresee opportunities for increased use.

This paper first provides a definition of SBP. It then offers a brief history of SBP, which is useful context for the paper’s discussion. Finally, the paper reviews the results of an in-depth, multiplant study of manufacturing plants with several years of SBP experience.

SKILL-BASED PAY DEFINED

Skill-based pay (SBP) goes by many different names, including pay for skills, knowledge-based pay and competency-based pay. Whatever the brand name, SBP rewards employees for the sets of skills they acquire, rather than for the job they are performing at a point in time. SBP differs from traditional job-based pay in several ways. Skills usually are certified or evaluated formally in SBP plans, and rewards follow certification that the employee has acquired compensable skills, not merely changes in position or job. In job-based systems, an employee’s pay may change continually as job assignments change, whether or not the employee ever demonstrates competence in those assignments. Advancement opportunities are usually broader in SBP systems than in job-based pay; for example, employees may receive rewards for learning all jobs in their team or department.

SBP can take many forms, from base pay to bonuses, and from rewards for concrete, task-related skills to rewards for abstract competencies (Ledford and Heneman 2000). Such plans can cover any population, from hourly employees to executives. SBP can reward skill breadth (for example, different positions in a team); skill depth (increasing expertise, as in an apprenticeship ladder); vertical skills (management skills and knowledge of the business); or any combination of these. By far, the most common SBP plans are base-pay systems rewarding nonexempt employees, and that is this paper’s focus.

A BRIEF HISTORY OF SKILL-BASED PAY

Modern SBP systems originated with Procter & Gamble in the 1960s, when the company created a new base-pay system to reinforce self-managed teams, a delayed hierarchy, high levels of training, extensive information sharing and other innovations within its high-involvement work systems in new manufacturing plants. The company rewarded employees for learning all jobs in their self-managed team, and in some cases, all jobs in a plant. These plants were lean and highly productive. Other companies began adopting similar high-involvement designs, including skill-based base pay plans, in new plants during the 1970s. The competitive performance pressures of the 1980s and early 1990s led many companies to retrofit older, more traditional plants with high-involvement work systems. By 1990, companies began testing the model—including the use of SBP—in a wide range of settings, including back-office operations, call centers, retail, and managerial and professional settings.
By the early 1990s, SBP was one of the hottest pay innovations in the United States. WorldatWork (then the American Compensation Association, or ACA) further stimulated interest in this form of compensation in several ways. A study of 97 skill-based pay plans (Jenkins, Ledford, Gupta and Doty 1992) found two-thirds to three-quarters of these plans were rated as successful on a wide range of outcome measures, such as increased workforce flexibility, reduced staffing and productivity. The ACA also initiated a course on designing SBP plans and published several articles on the topic in this journal during the 1990s. Subsequent academic research confirmed early survey results indicating SBP's effectiveness. One study found that an SBP plan increased plant productivity 58 percent (Murray and Gerhart 1998).

Use of SBP expanded globally. In France, for example, a fourth of top French companies used some form of SBP by the end of the 1990s (Klarsfield, Balkin and Roger, 2003). Various French institutions promoted the use of pay based on the person rather than the job after unions lost momentum and pay increases tied to wage inflation nearly disappeared. In Britain, competence-related pay was fusing with traditional forms of pay by the late 1990s, addressing the measurement concerns of employees and managers’ need for results (Armstrong and Brown 1998). A study (Towers Perrin 2007) of more than 600 managers in 21 countries found that salary increases are based on competencies for executives in 27 percent of cases, for managers and professionals in 36 percent and for nonmanagement in 28 percent. In addition, increases were skill-based for executives in 9 percent of organizations, for managers and professionals in 15 percent and for nonmanagers in 18 percent.

By the current decade’s beginning, SBP was commonplace in the United States, but its use was no longer rapidly expanding, and it was no longer a hot topic in the compensation literature. The sixth triennial study of HR practices in Fortune 1,000 firms by the Center for Effective Organizations found that 56 percent of firms used pay for knowledge or skill with at least some employees, and that this percentage was relatively constant since 1993 (Lawler 2003). The percentage of a firm’s employees covered by these plans typically was small.

A recent longitudinal study (Shaw, Gupta, Mitra and Ledford 2005) was of special interest to WorldatWork members. Two original authors of a 1992 ACA study of 97 skill-based pay plans (Gupta and Ledford) and two new collaborators revisited the original sample to determine how many survived and why they survived or failed. The study found 61 percent of organizations in the sample continued using SBP. This compares well with the survival rates for other compensation innovations, such as gainsharing. The average age of the surviving SBP plans at these sites was almost 12 years. So, SBP plans can survive for many years. The study found prospects for survival were enhanced by an orientation toward skill breadth, use of more skill units or blocks, employee involvement in the design and administration of the plan, supervisor support and use in manufacturing.

Despite evidence of SBP effectiveness, use of these plans appeared to stall in recent years (Zingheim and Schuster 2002). Faddish adoptions dropped off as this
type of pay became familiar, even “old news.” A few prominent reports of failure, such as at Motorola, encouraged caution. It became obvious: SBP was difficult and time-consuming to design and administer well, and those looking for a quicker fix began to look elsewhere. Certain types of organizations, especially capital-intensive manufacturing, seemed better suited than others to SBP. However, the movement of American manufacturing jobs to low-wage countries in the past decade reduced the number of potential adopters. For SBP implementations to continue or accelerate, adopters must have assurance that SBP plans can be effective in the long run and can survive over time.

STUDY OF LONG-TERM SBP PLANS
Management and the union at a manufacturer of consumer paper products engaged the author to help understand the experience of similar plants that had used SBP for many years. This work was part of a process of a union-management review of a 10-year-old skill-based pay plan at the plant. A different project phase involved pricing the SBP system to market. That work is described by Judy Canavan of HR+Survey Solutions on pages 18-25 of the Journal, who collaborated with the author on the project (Canavan 2008). The project was a unique opportunity to understand how skill-based pay evolves in conditions highly conducive to SBP success. First, high-involvement organizations are fertile soil for SBP. These organizations use self-managed teams, extensive training, engagement of employees in the business and considerable communication of business information. Employee involvement in SBP predicts the success and survival of these plans, and employee involvement in the pay system is natural in organizations where employees are heavily involved in the business. Moreover, high involvement depends on employee understanding of the overall production process and how to control it, which SBP fosters.

Second, process technologies are especially conducive to SBP for economic and technical reasons. Industries using process technologies include paper and forest products, chemicals and food processing. Labor costs typically are small compared to the materials and capital in these industries. A new chemical plant or paper mill, for example, can require more than $1 billion in capital investment. Partly because labor costs are smaller than other costs, process technology plants tend to have among the best-paying jobs for nonexempt workers in the economy. With overtime, it is possible for the average employee to make more than $100,000 in some of these facilities, whether or not they use skill-based pay. The additional premium that employees typically receive in skill-based pay systems (perhaps 10 percent to 15 percent of base pay) is less of a competitive concern for organizations with labor-intensive technologies (for example, in assembly plants and the service sector), where total compensation usually is the dominant business cost. For example, if wages are 15 percent of total costs, and wages are 10 percent above market, total costs are only 1.5 percent above market (.15 x .10 = .015). Regardless of the technology, SBP designers expect the plan to generate net performance, cost and
quality gains to offset wage premium. However, failure is less of a risk in capital-intensive technologies.

Study Participants

Nine manufacturing plants, including the sponsor, took part in the study. Types of data for the project included the following.

- Survey data from one key respondent (such as the top HR manager at the site) at each plant was collected. This survey collected detailed data about compensation and benefits practices, levels and costs. It also collected detailed information about the organization and the skill-based pay plan.

- In-depth information through visits to five locations was secured. Information from the survey’s sponsor was included. A manager and, in two cases, a union officer from the sponsor plant accompanied the author on site visits to four other sites that hosted visits. Site visits included a plant tour and interviews and/or focus groups with key managers and employees.

- In one site, the sponsor group and the author conducted a telephone conference call with the plant manager in lieu of a visit.

- All participating sites were invited to a conference hosted by the study sponsor, at which participants received study results and shared their experiences with SBP.

Figure 1 summarizes the key characteristics of the sites and the types of data collected from each. Like process technology plants generally, the plants in the study were relatively large. The median number of employees was 468. Pay rates varied but were relatively high, as expected because of the high-wage industries represented. Median annual wage or salary per employee was $58,581; total compensation, including overtime and benefits, was $86,500. One site (Site No. 6 in Figure 1) had a long history of using SBP, but had terminated the plans for all employees except those in maintenance. The site participated, in part, because management was considering restarting the use of SBP in work teams.

<table>
<thead>
<tr>
<th>Site No.</th>
<th>Industry</th>
<th>Year Open</th>
<th>Region</th>
<th>Union?</th>
<th>Data Collected</th>
<th>High-Involvement Design—Greenfield or Retrofit?</th>
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<tr>
<td>1</td>
<td>Paper products</td>
<td>1929</td>
<td>Northeast</td>
<td>Yes</td>
<td>Survey, visits, conference</td>
<td>Retrofit</td>
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<td>2</td>
<td>Paper, fiber, packaging</td>
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<td>3</td>
<td>Ceramic substrates</td>
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<td>Southwest</td>
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<td>No</td>
<td>Survey, visit, conference</td>
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</tbody>
</table>
Lessons Learned

The study reached several important conclusions about designing effective SBP plans that survive in the long run. These pertain to the results from SBP plan, design issues, organizational conditions associated with success and future issues.

Organizations with SBP can Achieve Impressive Results.

Most, but not all, plants in the sample enjoyed high performance and business growth. Three plants were the best or among the best in their company. Plant No. 7 was the top plant in the company on productivity, costs and efficiency. It had achieved a 50-percent increase in operating efficiency during the previous five years, cut the number of managers 50 percent (indeed, it eliminated management except on the day shift), and it increased production 35 percent during this period. Corporate executives considered Plant No. 5 to have the highest productivity, best costs and best quality in the company. Plant No. 1 had cut headcount 35 percent, yet increased output dramatically. The plant manager for Plant No. 2 indicated that the work redesign (of which SBP was a part) saved $15 million so far.

How much of any performance improvement is the result of SBP, as opposed to other innovations in the high-involvement model? Definitive answers are difficult to provide because SBP is so intertwined with other innovations. However, the cases provide some interesting evidence on this issue. In case No. 1, SBP was critical in the retrofitting of an old, traditional plant with the high-involvement model. The union agreed to changes resulting in the loss of hundreds of union jobs for two reasons: to enhance prospects for plant survival and to gain the pay opportunities included in the SBP plan. Indeed, the other changes probably would not have happened unless SBP were part of the package. In case No. 2, SBP was critical to meeting one of the top business challenges facing the plant. The average age of employees was 54 years old. Management and the union see SBP as a way to ensure that the new generation of employees receives careful, systematic certification and training and has incentives to seek this training—enabling the plant to continue performing well as the “old guard” retires. Overall, the fact that so many plans survived for so long indicates these organizations believed SBP benefits exceeded costs.

SBP Plans are Highly Customized—Every Plan is More or Less Unique.

SBP literature often states that SBP plans are highly customized to specific business conditions, technologies and work systems. However, the study reflected how varied these plans are. There was no consistency from plan to plan in the number of skill blocks in these plans; the minimum number of blocks employees were required to learn; the maximum number of blocks that employees were eligible to learn; the length of time spent in each block; the number of years it would take to go from the bottom to the top of the system; whether all blocks were worth the same or some were worth more than others and the nature of certification standards. All plants essentially had multiple plans for different populations (such as manufacturing, pack-
aging, distribution and maintenance). One plant had 10 different plans, partly because it had many different types of production departments. Some characteristics varied primarily at the plant level, such as the mix of total rewards (base pay versus incentives and benefits), whether performance incentives were paid, the amount of overtime typically worked and the overall position in the labor market.

There are several implications for this diversity in plan design for those considering skill-based pay. First, it is impossible to apply another organization’s design in cookie-cutter fashion to new settings, even in the same firm. The designs are so highly customized to local conditions that they would create problems in a different set of conditions. Second, understanding the range of SBP design options is helpful in making design choices. It was easy for the study participants to find good practices to borrow or adapt, just as they found specific characteristics of other plans would not fit their situation. Thus, benchmarking is useful for understanding design options, not for discovering “best practices” applying everywhere and under all conditions.

SBP Support Systems are Critical but Require Maintenance.

SBP support systems include the hiring system that brings in employees capable of acquiring new skills, training to give employees new skills, job rotation practices to solidify formal training in the work setting and keep skills current, and certification procedures determining whether employees acquired skills before they receive a reward. The author’s study confirmed that these are challenging issues for SBP plans, and implementing effective solutions is essential to obtaining a payoff from the higher wages associated with SBP. In the absence of good training, rotation and certification processes, SBP increases wages but provides no benefits to offset them. The plant that had terminated SBP for its operators did so because a new plant manager became convinced of inadequate value to the organization for the higher wages associated with SBP.

SBP designs can be demanding of support systems. As an example, look at the plant manager of a food processing plant who wanted employees who were “a combination of pig farmer and nuclear power plant operator”—in other words, skilled, self-reliant and resourceful. In this plant, good hiring systems and excellent training systems were critical, including systems for training operators in maintenance skills. Several plants had adopted interesting innovations to promote good training and certification. These innovations included:

- Several plants put all training on their intranet, so employees could access it at any time.
- One plant used hundreds of “One-Point Lessons” (OPLs—one-page sheets including a digital photograph of the appropriate equipment). Because each OPL focused on only one problem and its solution, OPLs were easy to search and use on the job.
- Several plants invested heavily in documentation of training and required practical skills demonstrations.
For certification, one plant had moved from requiring teams to conduct all certifications to limiting all certifications for a given type of skill to one or two people who would use consistent, high standards that were calibrated across the plant.

Some plants had begun to conduct part of the certification with computer-generated tests. In one plant, a random generator created a test from a pool of questions based in the training program.

Practical demonstration of skills was almost universal as a part of the certification process. Various techniques to facilitate rotation were applied.

One plant used a color-coded Excel chart to show, for all employees in a department, the skills that the employee had mastered, was learning and was ready to have certified.

The level of resources required to maintain the support systems is easy to underestimate. One plant of nearly 1,000 employees needed two FTEs to maintain the SBP system, including training and certification processes. Employees often encourage such investments by complaining loudly when they are unable to earn SBP increases because of a lack of training or rotation opportunities. A large investment in SBP support systems makes sense only when the organization needs to develop and maintain a high level of skill in the workforce as part of its business and organizational strategy.

Skill Recertification is Important and Often Overlooked.

Skill recertification received inadequate attention in the design of some plans. Recertification is important because it helps keep the system honest. Employees cannot become what one plant’s employees termed “90-day wonders,” who learn and retain skills only long enough to pass certification exams and receive pay increases. Requiring employees periodically use the skills for which they are paid, and that they periodically obtain recertification, ensures that the company receives value for the increased wages associated with SBP. This issue is much easier to deal with during the initial design; it can be difficult and painful to deal with later, when employees may face the loss of pay for skills long since lost. In the cases reported in this paper, the issue was typically dealt with later, only after problems arose because employees had not kept their skills current.

In one plant, all employees received quarterly performance appraisals from their team and supervisor that included an appraisal of whether they maintained the skills for which they were paid. This seemed to correct earlier problems, and to help ensure that employees monitored themselves to avoid unfavorable ratings. In one plant, the union steward in one department (who was also a team leader) led a move to require recertification because he grew tired of assigning employees to positions for which they had been certified but could not perform. Employees were given time (more than a year) to regain lost skills; if they were unable to pass tests at that point, they lost pay. A few employees did lose pay in this way.
Renewal Processes are Critical.
The SBP literature advises that SBP designs need to be revised when business conditions, the technology and organization designs change. This is because SBP is wed so closely to its context. Moreover, changes in SBP plans often have far greater ramifications than do changes in traditional pay systems. For example, automating an operation in a traditional pay system would affect the job of employees who performed the operation. In an SBP system, however, dozens or scores of employees could be affected—all those who were paid or were eligible to be paid to learn the operation.

Extensive updating and redesign occurs in many of these SBP plans. It appears that many successful SBP systems are essentially redesigned every few years. There are many precipitants of redesign. Adding new lines of business and subtracting others and changes in work technology, management systems and business strategies potentially change the types of skills that employees need. At a plant with one of the most successful plans, SBP had not worked well for the first several years after startup because employees expected to do more than was practical, including scheduling, ordering raw materials, budgeting and welding. Inadequate training in the early years meant that expectations were unrealistic. The pay plan was overhauled as the team roles were redesigned to make them more realistic and attainable—maintaining a high-involvement level, but abandoning the idea that every employee should be involved in every decision. Later, management removed a skill block from production department SBP plans when material handling was automated and centralized. Skill blocks again were modified when maintenance roles were added to operator teams, enabling the entire plant to be operated with a small maintenance department. This type of evolution in pay plans did not happen in every case, but it happened in most. As one plant manager said, “It takes a certain amount of time and effort to keep the plan current. If it is obsolete, it carries no weight and is not credible.” One attendee at the follow-up conference captured the changes’ ongoing nature in saying, “The question is how to keep the plan as a living document, not a periodic project.”

Leadership is Essential.
The cases indicate the importance of leadership in creating effective SBP plans. In one case, a determined plant manager insisted on correcting the problems that resulted in
the initial SBP design failure. In several cases, the plant manager created the context within which the SBP plan could evolve to correct problems or adapt to new challenges. On the other hand, one new plant manager terminated a plan for operations workers on the grounds that the plan was not, in his opinion, worth the cost.

Leadership can come from a union as well as management. In the three unionized plants, the union played an important role in the plan’s design and evolution, and in some cases, initiated important changes. Union leaders tend to be especially concerned with issues of the fairness of and employee support for the plans, and these concerns can be important in the plan’s success. SBP plans are subject to collective bargaining in unionized settings, and the dynamics of collective bargaining play out in SBP plans. However, the case studies present no evidence that SBP is significantly different or any less successful in union settings than nonunion settings.

Competitive Wage Assessment is Becoming More Important.

One of the most difficult issues facing SBP is that many plans appear to have been developed without strong reference to market pay levels or a target market position. The host plant for the case studies, for example, had not considered market wage levels in setting SBP rates when the plan was designed originally. Rather, management and the union asked how much additional wage opportunity would be needed to persuade employees to accept a high-involvement design.

Wage competitiveness is becoming more of an issue for several reasons. First, American organizations are under tremendous competitive pressure from low-wage countries, and every increase in costs is scrutinized carefully today. It is increasingly important to managers to understand exactly what SBP plans will cost and what kind of a return the company may expect for increased wages. Additionally, some industries that are heavy users of SBP (notably the paper industry) face industry overcapacity. This makes competitive pressures severe within companies in those industries; plants within one company compete with others in the same company for survival, and higher wages are a threat. Second, as firms have responded to competitive pressures, even traditional work systems have begun to adopt many elements of the high-involvement model. Organizations have grown leaner by removing layers of management hierarchy, reducing crew sizes to the minimum, cross-skilling and incorporating support operations such as maintenance, quality and material handling into operating units. As differences between common manufacturing practice and the high-involvement model narrow, it becomes more difficult to accept higher wages in SBP plans simply because they reinforce a high-involvement model that does not look so different. Employees who have not worked outside of a high-involvement system for years may be surprised about how much manufacturing practice changed elsewhere in the past decade.

In the survey, 100 percent of respondents agreed that the geographic and/or industry labor market was “moderately” or “very” important in setting wage levels. This is a greater level of concern for the market than could have been expected
15 years ago, when the emphasis was on how different SBP plans were. Conditions are ripe for compensation professionals to use their knowledge about market pricing to help develop better SBP plans. By applying the tools of their trade, compensation professionals can help managers do a better job of understanding the implications of SBP plans for costs and cost-effectiveness, as well as of making informed decisions about positioning the SBP system to an appropriate place in the market.

CONCLUSION

Although this paper shows that organizations with SBP can achieve stunning successes, the focus has been on what it takes to create a skill-based pay plan that can be effective and that can survive for many years. This type of pay plan requires a high level of commitment and investment to obtain the benefits of SBP. All but one of the studied organizations indicated that the investment was worthwhile. As the plant manager said, “Skill-based pay is a royal pain in the rear, but it is worth it. A traditional system is much easier in so many ways, but skill-based pay is worth the effort.” By understanding the critical factors for long-term survival and success, compensation professionals and other managers can anticipate the challenges that they will face in securing the benefits of SBP. The author’s study indicates that the following factors are especially important:

- Sound customization of the SBP design that addresses the organization’s specific business conditions, technologies and work systems
- Solid hiring, training, job rotation and certification systems to support SBP
- Skill recertification processes that ensure the long-term value of SBP plans
- Renewal processes that adapt the plan to changing conditions
- Leadership that supports the plan for many years
- Competitive wage assessment, which ensures the plan’s economic value.
AUTHOR

Gerald E. Ledford Jr., Ph.D., is president of the Ledford Consulting Network LLC. He is a nationally recognized authority on HR issues, including employee reward systems. From 1998 to 2003, he was a leader at Sibson Consulting. From 1982 to 1998, he was a key contributor at the Center for Effective Organizations, University of Southern California. He earned a Ph.D. in psychology from the University of Michigan. Ledford has written more than 90 articles and 10 books. He frequently speaks at professional events, and the national media often cites his research and opinions.

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A key challenge to the administration of a skill-based pay (SBP) system is determining the market competitiveness of the pay levels. While SBP systems have existed for a long-time, this challenge may be one possible reason why they are not more widely employed. At this time, no well-established and accepted methodology for assessing the competitiveness of SBP levels exists, yet, knowing the competitiveness of current pay levels is critical for attracting and retaining resources and for assessing labor costs. In an interview with the author, Jay R. Schuster, Ph.D., (2007) indicated that he sees this lack of methodology as the single largest problem with SBP systems. This paper outlines a new approach for developing an external market assessment of an SBP system.

The importance of calibrating SBP with the external market is underscored by the results of a 2005 survey (by Gerald Ledford Jr., Ph.D. and the author) of nine companies with mature SBP plans (Ledford 2008). For setting their SBP rates, participants indicated that:

- Pay rates of nearby employers were moderately to very important (78 percent)
- Pay rates within their industry were moderately to very important (78 percent).
The primary roadblock to pricing SBP systems is that most published compensation-survey data are role-based, rather than skill-based. This is confirmed by Stern and Borcia (2006): “… survey providers have attempted to offer this information (compensation levels based on skills) … but most have discontinued the effort.” An alternative approach for determining the market rate for SBP is seldom, if ever, addressed in the literature. This paper presents a framework for assessing the competitiveness of compensation for SBP systems.

THE CHALLENGE
The challenge at hand is how to draw a relationship between pay levels and skill sets. One could use the standard tools of the profession such as a published survey. However, most SBP systems are based on internally defined rather than market defined skill sets. Thus:

1. Each company has a customized set of skill requirements and definitions.
2. Many skill sets may not be directly transferable to a position at another company.
3. A nationally accepted standard or test to assess skill achievement does not exist.

This situation is in contrast to some professional career ladders such as for actuaries and computer technicians. For these professions, pay levels are typically linked to nationally defined tests and certifications, and the knowledge/skill sets achieved through the educational process is/are directly transferable from employer to employer.

One might also expect that a new SBP-specific system survey could be developed. However, in addition to the issues just listed, it is a challenge to develop a list of appropriate companies to include in the survey. This can be problematic for any survey, because it is important to consider factors such as industry, the geographic labor market (is it local, regional or national?), union versus nonunion and so on. For SBP companies, finding comparators is exacerbated by the narrow universe of companies with SBP systems. According to Stern and Borcia (2006), “A few leading-edge survey providers … discovered that the methodological complexity of gathering and analyzing the data was daunting, the results were disappointing, and the demand didn’t justify the investment.”

Finally, one may choose to construct a process to benchmark SBP positions to other internal positions for which there is competitive market data. Using this methodology, the market rate for the SBP position is based on the position to which it is linked. While this may work in theory, the internal value may not truly reflect the external value. In addition, there may be challenges to gaining the acceptance of this methodology by the SBP participants.

To determine external competitiveness for a skill-based pay system, this paper previously described three potential approaches. The three have pros and cons. These are summarized in Figure 1 on page 20. In the absence of a traditional methodology to link skill sets to pay, another approach must be employed.

This paper describes an approach that uses published survey data to price the skill-based pay ladder as a whole rather than attempting to first define and price specific
positions individually. In other words, this approach uses survey data to help price the entire pay system; the primary focus thus, is on the forest rather than the trees.

CONDUCTING THE ASSESSMENT

Pricing the SBP ladder requires additional analysis beyond what is typically employed for assessing the market rate for directly comparable, or “benchmark,” positions. The balance of this paper describes this approach. To illustrate the process, the paper discusses the steps required to assess pay levels using a specific case study. The example is a large paper products manufacturing plant (See: “A Paper Plant Adopts SBP” on the next page).

Step One: Map the Defined Skill Sets to Jobs in Surveys

Step one is to map the defined skill sets to jobs found in published surveys. This requires several substeps.

1. Identify the key organizational areas to be assessed. In the case described in this paper, four areas of the manufacturing plant were examined: manufacturing, maintenance, finishing, distribution.

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FIGURE 1 Assessing the External Competitiveness of an SBP Plan

<table>
<thead>
<tr>
<th>Potential Approach</th>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
</table>
| Use traditional role-based published compensation surveys | - Reflects the market for role-based positions (typically the predominant market for talent)  
- Can be fine tuned to capture a specific industry  
- Can use career ladders or maturity curves to compare to skill growth  
- Easily explained to employees | - No direct linkage of pay with specific skill sets  
- May not reflect local market for talent  
- SBP employees may feel more valuable than their role-based counterparts |
| Conduct custom survey of other SBP plans | - Allows the sponsor to define the comparator companies, the skills and definitions  
- Likely to be understood and accepted by employees | - Cost is high  
- Time commitment is high  
- The risk that the invited organizations may not be willing to participate  
- Additional issues, as discussed above (e.g., comparability of skill definitions) |
| Benchmark to other internal positions:  
- For which external market pay data is available  
- That are considered of equal internal value | - Provides for internal equity  
- Provides some linkage to the external market | - Linkage with the external market is weak  
- May not be internally accepted |
2. Analyze the pay-for-skills plan to fully understand the types of activities, responsibilities and accountabilities characterizing the pay-for-skills requirements within each area.

3. Compile a list of “jobs/positions” that would exist if the areas were organized along traditional lines. As a test, explore the types of jobs the employees might come from if they were hired from another firm, or where employees might look for a position if they were to leave the plant. This step potentially could be quite rigorous, for example, by reviewing historical hiring patterns and exit interviews.

4. Identify jobs from published surveys that most closely align with the position list compiled in substep three. To test the list, cross reference the tasks and responsibilities from the survey job descriptions to the activities and responsibilities identified in substep two.

A sample of the positions identified for the case example is provided in Figure 2 on page 22.

Step Two: Align the Skill Levels to the Survey Levels

Step two is to align the plant’s skill levels to the levels in each published survey. The first and most important step is to define and match the lowest and highest SBP system level to the external surveys. For this example, the entry-level and first-level supervisor were examined. Entry level can almost always be based directly on market data. This is the compensation level needed to bring employees of the appropriate level of skill and experience into the system. These positions are typically outside hires and have not gone through any company-specific training, thus an entry-level

A PAPER PLANT ADOPTS SBP

The case is based on a large, unionized paper products manufacturing plant with several hundred employees, situated near a metropolitan area. The organization adopted SBP as part of a comprehensive set of high-performance work-system changes in the mid 1990s. When the system was implemented, wage rates were based on internal historical levels rather than market rates. An assessment of the market competitiveness of pay levels had never been undertaken at the plant. Pursuant to a clause in the collective-bargaining agreement of this plant, management and union leadership asked for help in assessing the external competitiveness of their SBP.

Gerald Ledford and the author worked with an internal task force comprised of leaders of union and management. The process for calibrating pay levels based on the market pay data from published surveys, as described in this paper, was employed. The resulting market values were compared to the plant’s pay levels. The results indicated the plant generally paid a high premium, especially at the more senior levels.

The results were viewed as credible and accepted by the plant management and the union leadership as reflecting the market positioning of the existing SBP plan. The results have been used since in negotiating changes in pay rates at the plant. Key success factors were (1) involving both management and the union in the entire process and (2) creating an analytically rigorous and sound process that everyone could accept.
position from a published survey is a fairly reasonable benchmark. The system’s top end often can be based on the next hierarchical level in SBP systems. SBP systems are used most commonly in delayered organizations, and often there is no traditional supervisor. Rather, these duties are assumed by those who play a quasi-supervisory role such as team leader, or by fully qualified employees who divide the role. Thus, the top level of the often-appropriate SBP system corresponds to the first-line supervisor role in traditional pay systems.

Next, the analyst must identify the additional levels that need to be benchmarked. Surveys typically have multiple levels for specific positions that imply increased skill, experience and responsibility (for example, Machinist I, Machinist II and Machinist III). In many cases, the SBP systems may have a different number of levels than what exists in the surveys, and the SBP levels may not match the survey definitions even if the number of levels is the same. In the case study, the SBP plan had six levels, and the surveys typically had fewer. To align the levels from the surveys with the SBP levels, survey levels were interpolated to develop the six corresponding market levels, as illustrated in Figure 3. For this case example, the result of Steps one and two was the collection of compensation data for more than 130 jobs from published surveys, categorized by functional area and level.

Step Three: Developing the Market Consensus

Step three is to develop a market consensus for each level in each area. This consensus can be a straight average of the data, or in some cases, it may be appropriate to weight each survey match based on the relevance, importance or percent of job responsibility.

For the manufacturing plant, a consensus for each of the six levels in each of the four functional areas (for a total of 24 market values) was developed. Because the jobs in each match were a strong representation of the skill sets required, a straight
average was used. In actuality, the pay levels for most selected positions were closely aligned. Weighting them, in the case example, would have yielded little or no change to the results, while adding an additional level of complexity to the analysis and communications.

Step Four: Determine a Geographic Pay Differential

Step four is to determine a geographic pay differential. This is the same issue that is addressed when market pricing role-based positions and a similar methodology is applied. The purpose is to ensure external competitiveness with the appropriate labor pool. For establishing compensation levels, the author suggests using national benchmark data rather than geographic data because the data set is more robust, and there tends to be fewer anomalies. A geographic differential to the national benchmark data could then be applied. The author has found the geographic data from Economic Research Institute’s database to be robust and considered by some to be an industry standard.

Step Five: Determine the Premium Size to be Applied to the Market Data

Step five is to determine the size of the premium to be applied to the market data. Most SBP systems have key differences between the skill-based jobs and the role-based jobs found in published surveys. Potential differences include:

- Broader skill base and flexibility to fill multiple functions
- Ability to perform additional support work (e.g., operators performing minor maintenance, material handling and setup)
- Ability to operate in self-directed work teams—reducing the number of supervisors and managers.

In the study of nine SBP plans, management was reduced by as much as 50 percent (Ledford 2008). These differences in job content and accountabilities make the skill-based jobs more valuable than the more narrowly defined role-based survey jobs. Based on the author’s experience, the multiskill premium is in the range of 10 percent to 15 percent more than the market median. This is consistent with other recommendations. Gerald Ledford Jr. (2007) indicates that, in his experience, a multi-skill premium

![FIGURE 3 Schematic of the Competitive Assessment Interpolation by Level](image-url)
is most often 10 percent more than market median. Another professional (Coil 2006) indicated “a 15-percent multiskilling premium is not unusual when blended jobs are in place.”

The analysis should consider whether the same percentage premium is appropriate for each level of the SBP system, or whether a different premium is appropriate at different points in the SBP ladder. The most common arrangement is a premium that is similar across levels of the ladder, but this is not the only method. In this case example, union and management had revised the SBP plan to make a steeper ladder in the finishing area compared to other areas. This difference was because the first two levels on the SBP ladder in finishing were not seen as requiring an exceptional level of skill compared to traditional jobs, while the top levels (including the team leader role) were quite demanding and required an entirely new set of skills, justifying a relatively higher premium.

CONCLUSION

Determining competitive market rates for SBP systems has historically been a mystery to many compensation professionals. This paper proposes several options and provides a framework for using a common tool—published compensation surveys. This method of determining the external competitiveness of the SBP ladder as a whole can be explained to employees and provides internal equity with the other jobs in the organization that may be purely market-rate driven. By providing the compensation professional a tool for pricing SBP levels, a major roadblock may be removed, enabling more SBP systems to be adopted.
AUTHOR

Judy Canavan has two primary areas of focus: One is helping companies tie their compensation programs to overall organizational strategy, and the other is developing and implementing custom compensation research and surveys. She has worked across a broad array of industries including health insurance, reinsurance, utilities, engineering, food processing, higher education and not-for-profits. Canavan is managing partner of HR+Survey Solutions (HRSS), a consultancy that provides compensation consulting and custom survey development. Prior to founding HRSS, she was associated with Sibson Consulting since 1983. During that time she served as a compensation consultant. She earned a bachelor’s degree in economics from Skidmore College, where she graduated with departmental honors and was a member of the Periclean academic honor society and Omicron Delta Epsilon. She has been published in Directors and Boards as well as in workspan. She is a member of WorldatWork and the Society of Human Resource Management.

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Since the mid-1990s, the HR function has been under pressure—from within the organization as well as from management gurus—to transform itself. The call has been for human resources to shed the skin of its costly transactional drudgery and become a genuine strategic partner to top management and a quantifiable contributor to business results. The idea has gained traction at every global organization, but the question remains: Just how real is this transformed version of HR? Is it transcending the transactional, along with its image as a soft, people-minded science? More to the point, how can HR truly demonstrate its strategic potency?

One answer has been under the nose of HR and business leaders for years, but only in this era of HR evolution has it emerged as something practicable and ready for “prime time.” Put simply, human resources stands to profit from a robust strategic partnership with sales. In fact, a recent Mercer survey exploring the relationship between the HR and sales functions revealed that although establishing a strategic partnership between human resources and sales may seem like a distant goal, it is possible and important. By employing the best practices of successful
partnerships and using fundamental customer-centric strategies, human resources can become an effective business partner with sales and a strategic asset in a company’s revenue-generating function.

For those who might raise an eyebrow at the notion that human resources is or should be capable of pounding the pavement, so to speak, alongside sales, it’s worth documenting how human resources is changing around the world, shifting its focus from the enhancement of internal operations to optimizing its impact on business results. The research emerged in 2003, when Mercer carried out one of the first global surveys of HR transformation. At the time of the survey, the concept of HR transformation had emerged from pressures on human resources to support the business, guide and execute human-capital strategy, demonstrate greater value and continue its fundamental administrative work.

More than 1,100 respondents at diverse organizations around the world took part, and up to 86 percent of them, by region, reported HR transformations either currently in process or planned for the next year. From a low of 7 percent in Asia to a high of 25 percent in the United States, other companies indicated they had already completed transformation projects. A majority of respondents said their firms had developed human-capital strategies linked to their business strategies. And in many parts of the world, HR leaders were becoming more involved in strategic business discussions and decisions.

Still, while HR executives increasingly viewed their function as strategic, their staffs often lacked strategic skills. They spent too much time on transactional activities and not enough on high-level strategic partnering work. By 2006, it was time to clarify the concept of HR transformation. For Mercer’s 2006 Global HR Transformation study, to which nearly 1,400 organizations in all industries responded, it was defined as “the process of recreating or reinventing the HR function—such as re-engineering, restructuring, implementing new systems or a new HR service delivery model, outsourcing or co-sourcing—with the specific intent of enhancing HR’s contribution to the business.”

This time, the survey’s respondents—across Asia, Australia, Europe, Latin America, New Zealand and North America—reported a steady shift in HR priorities. For example, while 40 percent of survey respondents listed human-capital strategy as a principal function of human resources today, 64 percent expect it to become a key function within two to three years. Leadership development and talent management are other areas expected to become more important. Conversely, 46 percent of survey respondents listed operational excellence within the HR function as a priority today, while only 32 percent see that as a key function in the next few years.

Indeed, as HR transforms, its emphasis is shifting away from most of the transactional processes that once defined it—or, at least, it is making an important distinction between HR as a processes-oriented function and HR as a strategic business driver. (In turn, this is leading some organizations to “bifurcate,” in which these two HR streams are separated within the function.) Changes are well under way globally:
one-half of the 2006 respondents (50 percent) said they are currently in the midst of an HR transformation, while 12 percent completed one within the past year and another 10 percent plan to begin a transformation within the next year.

OPEN DOOR TO SALES

More than ever, the door is opening to a more strategic role for human resources, but it’s a role that has yet to fully materialize. One question in the 2006 study neatly illustrates this: What skill level (in each of 26 areas) will be required to meet future needs? The answer: 72 percent of respondents gave the highest rating—“must have advanced skill level”—to “interpersonal skills.” Fifty-nine percent gave that rating to “business understanding,” 49 percent gave it to “business strategy skills” and only 19 percent gave it to “financial skills.” Would three-quarters of a group of CFOs, CIOs or marketing chiefs answer the same way? Obviously, human resources cannot afford to be known primarily for its interpersonal skills if it wants to sit at the strategy table. In addition to all that it brings operationally, human resources must be a key business driver.

And sales is a primary business driver. Sales is the group within any organization most measurably impacting revenue, and forming a productive business partnership with sales can noticeably affect the company’s financial performance.

Yet little has been said (for years) about how the sales and HR functions can and should relate to each another. And that’s surprising, because a strong business partnership between human resources and sales would appear to be a key link in any company’s efforts to drive better business results.

Consider, for example, a survey of 37,000 employers worldwide and 2,400 in the United States by the temporary staffing organization Manpower Inc., in which 41 percent of U.S. employers said they had difficulty filling jobs in 2007. Significantly, the study said that the hardest job to fill was sales representative (followed by skilled manual trade worker and technician). Indeed, sales representative—which in this survey included every position from hourly retail workers to white-collar corporate sales executive—also was the hardest job to fill in 2006. On the most basic level, therefore, human resources must better partner with sales to identify the qualities required for successful sales representatives, and to recruit and retain top sales performers. But it’s obvious that not every organization has mastered this basic concept—and the disconnect is especially evident in organizations where human resources is focused less on talent strategy than it is on transactional support.

But in organizations where human resources is more than a support function, the strategic focus on talent is driven by specific, business-building efforts that:

- Identify talent needed to implement business strategies.
- Bring in required talent faster.
- Develop leadership skills.
- Prepare employees for their next challenging assignments.
- Match skills and competencies of current employees with talent gaps in the organization.
Thus, for a sales-driven organization where talent is the primary resource, human resources operating as a strategic function is a necessary requirement for creating and sustaining the sales team as a source of competitive advantage.

To understand the current state of the partnership between human resources and sales, Mercer recently interviewed 50 sales executives and 50 HR executives from Fortune 1,000 companies. The research revealed fundamentally divergent perceptions about this relationship. Some key findings:

- More than 70 percent of the HR executives interviewed believed they had achieved a solid strategic partnership with sales.
- In contrast, only 45 percent of sales executives shared the same upbeat assessment.
- Even more disconcerting, five times more sales executives than HR executives rated human resources in their companies as essentially a basic support function (ratings of 1 and 2).

In sum, either human resources is not providing ample value to sales, or sales is simply not noticing it. As disappointing as these findings are, the authors’ research shows that companies exist in which the partnership between human resources and sales is strong. To discover why human resources and sales struggle to team effectively and to determine how HR can better partner with sales, three fundamental questions were explored:

1. What are the key barriers to forming a strong partnership between human resources and sales?
2. What are successful companies doing differently from others to overcome these barriers?
3. How can HR executives begin to build lasting strategic relationships with sales?

BARRIERS TO PARTNERSHIP

When the authors examined the tasks where human resources currently supports sales, the most prevalent types of support were traditional activities such as recruiting, compensation and competency modeling. Human resources was much less likely to assist sales in other value-added ways, such as change management, performance benchmarking or training. In these areas, sales was more likely to perform these tasks on its own.

When HR executives were asked why they did not provide these additional kinds of support for sales, they most often cited a general lack of interest. Two-thirds of respondents said that providing more support was either not a priority for human resources or that sales had chosen to perform the tasks on its own. HR executives felt their staff did not have the skills or knowledge to perform the additional tasks or they cited a lack of systems, processes or other resources required to provide additional support.

Like human resources, sales has a limited amount of resources and could better leverage these resources by focusing on its core activities and seeking support from other internal functions. In fact, sales is receiving substantial support from other busi-
ness functions like finance and marketing. When asked why they do not seek more support from human resources, 41 percent of the sales executives responded that they simply prefer to perform the tasks themselves. The remaining 59 percent who were open to further support from human resources had not made it a priority because they felt that human resources does not understand the sales function well enough to perform the additional tasks, and does not have the skills to perform the tasks effectively.

These responses mirror the HR executives’ sentiments. Whether it is perception or reality, HR and sales executives both view a lack of knowledge and skills as a key barrier to a stronger partnership. When a lack of HR resources is added to the mix, it begins to become clear why this partnership typically has not flourished. Yet, it is thriving in some surveyed companies. Here are some best-practice distinctions between “strategic partner” organizations and “support function” organizations—that is, companies in which sales perceived a strong strategic partnership with human resources (ratings of 4 or 5) and those in which human resources was relegated to a supporting role (ratings of 1 or 2), respectively.

Best Practice 1: Collaborate Frequently on Key Business Issues
Sales and human resources cited human resources’ lack of knowledge about sales’ business as a key impediment to partnership. Indeed, if anything is a barrier to the sales-HR partnership, it may well be a corporate-cultural difference, in which sales is viewed as revenue-producing, while human resources is perceived as a staff function, if not something which sales and management view merely as “overhead.” Sales needs to view human resources as a resource to assist in the execution of business plans rather than as policy police or transaction processors.

Leading companies achieve this through frequent communication. First, they share their respective business agendas at very senior levels. When the survey asked how frequently sales collaborated with its HR peers on important business issues, the results showed that strategic-partner companies did so with much greater frequency than their support-function counterparts. Second, they ensure that human resources understands the business, the business strategy and the sales function’s key drivers. This can enable human resources to work side by side with sales on actual business issues, helping to implement sales strategies—for example, by understanding and codifying specific sales competencies and ensuring that they are better reflected in the recruiting and hiring process.

Best Practice 2: Dedicate HR Resources to Sales
Strategic-partner organizations do not limit the exchange of information to their senior executives. To further facilitate communication between the groups, they commit resources at the operational level to work side by side with one another. In more than one-half of the strategic-partner companies, human resources maintained at least one dedicated resource to support the salesforce. In stark contrast, not a single support-function company assigned HR resources to team with sales on an ongoing
basis. Dedicated support resources offer a unique opportunity for human resources to view the inner workings of sales and to develop a deeper understanding of its business objectives and processes.

Best Practice 3: Develop Additional Skills
Another barrier to strategic partnership that HR and sales executives identified was the level and mix of skills within the HR function. Whether it is the result of better hiring or better training, the research found that strategic-partner organizations perceived a higher level of HR skills across the board than their support-function peers did. This discrepancy was most pronounced in areas such as analysis, leadership and general business acumen—skills deemed relevant to providing more sophisticated support to sales. Significantly, similar skill gaps are noted as key to the future success of human resources, with 50 percent of respondents citing HR professionals as weak in financial and business strategy skills and 35 percent of them citing weakness in business understanding.

TRICKS OF THE TRADE
For an HR organization trapped in a support-function relationship and with scarce resources to invest, finding the opportunity to take the partnership to the next level is a barrier in itself. HR executives cannot just show up on sales’ doorstep saying, “I’m from HR, I’m here to help.” They need to have a reason to be there and a compelling story to tell.

Here is where human resources can borrow a few “tricks of the trade” from sales to break the ice and begin building momentum. Human resources has long intended to treat its stakeholders as customers. If an HR customer is defined as a fully engaged sales executive, then HR executives who want to strengthen their partnership with sales should characterize their sales counterparts as prospects they want to transform into full-fledged customers. To achieve this transformation, they should employ the same set of strategies that salespeople use to turn prospects into customers. Adopting these strategies and using classic selling techniques will help human resources get its foot in the door and win over sales as a fully engaged customer—in fact, lest we think too narrowly of the value of such strategy, it’s worth noting that HR’s adoption of classic selling techniques is a potential strategy to engage the entire organization in a strategic-partnership relationship. Thus, an effective sales model for human resources to employ is as follows:

- Identify a current need within sales.
- Build the case for HR’s intervention.
- Implement the plan and measure results.

Identify a Current Need within Sales
Just as a salesperson cannot force a product on a customer who has no need for it, human resources cannot force its support on a sales executive who does not perceive
a need. Human resources must first identify existing “points of pain” inside the salesforce and customize a sales pitch and solution to help alleviate that pain.

Salesforces face an array of problems that human resources is typically equipped to address and that sales can acknowledge as logical areas for human resource’s involvement.

The types of problems HR can help address include:

- High salesforce turnover
- Scarcity of qualified talent
- Long ramp-up times for new hires
- Antiquated selling skills
- Misaligned or unclear roles and responsibilities.

Once human resources identifies a specific problem within sales, it can use that issue as a platform to initiate a dialogue between the executives. If there is a point of pain in the salesforce that human resources can credibly help to resolve, sales is more likely to entertain a conversation with human resources and to seek its assistance.

Build the Case for an HR Intervention

Once human resources and sales have identified a problem that is suitable for collaboration, the next issue may be finding the HR resources to support it. Again, taking a page from sales’ playbook, the key is to prove to customers (in this case, sales leadership and, potentially, senior executives) that the benefits they can realize by investing in HR services will far outweigh the risk and expense of making the commitment. There needs to be a convincing business case for investing additional time and resources to engage human resources.

Fortunately, sales is a readily measurable function within a company, so human resources should be able to quantify the outcomes of its planned intervention. Tactical objectives such as reducing salesforce attrition by 10 percent, shortening ramp-up times by three months or hiring 10 more top performers have directly calculable returns that will almost certainly dwarf any required investment.

Implement the Plan and Measure Results

Once the agenda is set and the resources are in place, human resources and sales must then execute the plan. Like any salesperson, human resources should not shy away from taking credit for the outcomes it legitimately helps to create. It is there-
fore critical during implementation to diligently measure and report progress toward the stated objectives. Communicating early achievements is an important post-sale activity because it gives the customer immediate reinforcement that the decision to buy was the correct one.

By drawing attention to victories with sales executives, human resources will demonstrate the value it is creating for its customer (sales) and begin to set the stage for repeat purchases—indeed, this is where human resources parallels the paradigmatic sales function of turning prospects into steady clients. Furthermore, the authors' research predicts that by collaborating with sales and partnering to produce positive change, additional resources and more responsibilities will soon follow for human resources. Hopefully, a virtuous cycle of a continually improving strategic partnership will have been set in motion.

Human resources and sales have much to gain from a strong strategic partnership. At a minimum, human resources can showcase its ability to create measurable value for the company, and sales can focus its attention on doing what it does best—winning and retaining customers. While a few real barriers exist to developing this relationship, they are not insurmountable, and many companies have successfully overcome them through close collaboration and HR transformation.

Often, taking the first steps toward partnership is a barrier in itself, but companies have worked through this by aligning with sales' agenda and demonstrating the value human resources has to offer. With deliberate and focused effort, HR executives can take charge of their relationships with sales and make measurable contributions to their company's bottom line. After all, leveraging people's talents is foundational to success, and no one understands people issues better than human resources.

For case studies discussing how human resources and sales work together at Insight Enterprises and Lafarge North America, visit www.worldatwork.org. Go to “periodicals,” then WorldatWork Journal to see Web EXTRA.

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Global Factors Influencing Work-Life Policies and Practices: Description and Implications for Multinational Companies

Since the mid-1990s, the HR function and the growing prevalence of multinational corporations have created an essential need to understand how national differences impact the need for and success of work-life practices across different countries and cultures. The major factors that influence employees’ work and personal lives in any given country are discussed, followed by a discussion of specific directives to aid multinational corporations in understanding which work-life policies and practices will be effective in various cultures. These methods will provide a solid work-life foundation to allow multinational companies to be competitive in an increasing global economy.

While globalization has been growing for centuries, the recent rise in multinational corporations is unprecedented. U.S. companies alone have trillions of dollars invested abroad. In response to the growing number and scope of multinational companies, researchers have begun to examine cross-cultural and national differences in how workers view the organization and the organization’s role, what employees value in work and the work-life interface.
The challenge of balancing one’s work and personal life is experienced internationally (Bardoel and Cieri 2006). Organizations from all countries must respond to these struggles faced by employees by implementing work-life initiatives. Organizational and individual benefits of these initiatives include a greater percentage of women in the workforce and improved work-related outcomes, such as work-family conflict (Allen 2001; Frye and Breaugh 2004; Rosin and Korabik 2002; Thompson, Beauvais and Lyness 1999), perceptions of organizational family support (Allen 2001; Thompson et al. 1999), organizational commitment (Agars 2000; Allen 2001; Bardoel and Cieri, 2006; Thompson et al. 1999), motivation (Bardoel and Cieri 2006), job satisfaction (Allen 2001; Frye and Breaugh 2004), and turnover intentions (Agars 2000; Allen 2001; Milazzo 1997; Thompson et al. 1999). This paper reviews cross-national factors that impact work-life and the types of policies that are likely to be effective in different regions of the world.

GLOBAL FACTORS OF INFLUENCE

Five factors influence employees’ work and personal lives in any country: (1) culture and tradition; (2) the role of key stakeholders; (3) public policies; (4) community resources and infrastructure; and (5) demographics (Spinks 2003). What follows is a description of each factor, along with examples of how each may impact the work-life interface in different countries.

Culture and Tradition

Culture and tradition influence how an employee interacts with the workplace, including priority given to work, goal setting, giving and receiving feedback, allocating effective rewards, satisfaction received from the job and the work-life interface. (Gelfand, Erez and Aycan presented an excellent overview of most of these influences last year in an article in Annual Review of Psychology.) Numerous researchers have created dimensions on which cultures and countries differ. The most well-cited taxonomy of cultural differences is Hofstede’s cultural dimensions (Hofstede 1980). Hofstede suggested these differences include power distance, individualism (versus collectivism), masculinity, uncertainty avoidance and long-term orientation, and each of these can play a role in how employees balance their work and personal lives.

*Power distance is the extent to which less powerful members of organizations and institutions (like the family) accept and expect power to be distributed unequally.* This belief can influence employees’ expectations of workplace flexibility (e.g., an employee setting his/her own schedule could seem like an affront to a manager in a high power-distance culture).

*Individualism (versus its opposite, collectivism) is the degree to which individuals are integrated into groups.* In individualist societies, such as the United States, the ties between individuals are loose; everyone is expected to look after himself/herself and his/her immediate family. In collectivist societies, people are integrated into strong, cohesive in-groups, often extended families with uncles, aunts and grandparents,
which continue protecting them in exchange for loyalty. In a collectivist culture, such as China and most African countries, there would be a greater expectation of ability to care for family members than in a more individualistic society. In fact, Huo and von Glinow (1995) found that Chinese organizations tended to have more flexible benefits plans, workplace child-care practices, maternity-leave programs and career break programs than today's typical American organizations.

*Masculinity and its opposite, femininity, refer to the distribution of roles between the genders.* In particular, men's values from one country to another contain a dimension from very assertive, competitive and maximally different from women's values on the one side to modest and caring and similar to women's values on the other. The assertive pole has been called "masculine" and the modest, nurturing tendency termed "feminine." Sweden has been found to be one of the most "feminine" countries, while Japan is considered a very "masculine" country. If men in one culture are less likely to engage in more nurturing or "female" behaviors, policies such as paternity leave or the ability to take sick days to care for a child may play out differently than in a more feminine culture. For example, in many feminine cultures, such as Denmark, it is expected that fathers participate greatly in taking care of children, making parental leave for males common and accepted (Fester and Ward 2004), whereas this would be rare in the Middle East.

*Uncertainty avoidance deals with a society's tolerance for uncertainty and ambiguity; it indicates to what extent a culture programs its members to feel either uncomfortable or comfortable in unstructured situations.* This may mean flexible work hours may be more acceptable in low uncertainty-avoidance cultures, such as Singapore, as compared with high uncertainty-avoidance cultures, such as Japan and Mediterranean cultures.

Finally, *long-term orientation versus short-term orientation describes a society's "time horizon," or the importance attached to the future versus the past and present.* In long term-oriented societies (i.e., those with an eye toward the future, such as China and Japan), a greater respect exists for tradition and long-term commitments. There tends to be a high work ethic, where long-term rewards are expected for hard work. In more short term-oriented societies, such as Pakistan, Russia and the United States, value is placed in meeting social obligations regardless of the costs, individuals operate with quick-result expectations and social pressures exist to keep pace with peers. While the effect of this dimension on work-life is less clear, organizations would be wise to consider, for example, the effect of certain traditional practices (such as religious holidays or practices) in countries with a longer-term orientation.

Other factors may play a role in the work-life interface as well. For example, the role of religion (or specific religious edicts) may impact aspects of work. Gender equality in the workplace will be more challenging in regions where the predominant religion discourages women from working. In addition, work-life needs are affected by family structures and support, as well as gender roles. In countries where extended families play a large role in day-to-day life and women often stay home,
child care may be less likely to be needed, but flexibility around issues that arise with other relatives may be more important.

While it is known that culture affects work-life, a dearth of knowledge is available about how these factors impact different work-life strategies. It is critical that work-life managers and academics begin to build a knowledge bank about practices that are most needed and effective in different cultures to better equip HR managers faced with developing global work-life strategies for their organizations.

Role of Key Stakeholders
The role assumed by key stakeholders (e.g., the government and organized labor) can be an important determinant in employees’ work-life balance. The academic literature often treats work-life issues as something that is between the employer and the employee, but outside groups can also be vital in shaping the work-life landscape. For example, in heavily unionized areas, labor unions may negotiate minimum and maximum hours or particular benefits. In some cases, governments choose to take a proactive role. The Singaporean government, for example, created a Work-Life Unit that’s been tasked with promoting work-life strategy, building local expertise and facilitating funding. Specifically, this unit organizes seminars, sponsors awards, conducts training on work-life strategy, produces resource material and facilitates funding (Wee 2004).

Public Policies
The role of stakeholders is closely related to another important country-specific difference: public policies. Bardoel and De Cieri (2006) argue that public policies are a central way that nations respond to major social, economic, environmental and political issues, and these legalities are one of the most important driving forces guiding organizations (Still and Williams 2005). Employment laws govern working conditions, work hours and wages. An individual working in France, where the standard work week is 35 hours, will likely have a different set of work-life experiences and needs than an individual in India, where many employees (especially in the private-sector) work six eight-hour days with every second Saturday off.

Public policies across various countries also mandate diverse levels of work-life benefits that employers must offer their employees. The benefits that are most often legally addressed are maternity and paternity leave, which greatly vary from country to country in length and amount of pay. Nordic countries, such as Sweden, Norway, Denmark and Finland, require the most extensive amounts of leave and pay compared with other industrialized countries (Kelly 2006). For example, Sweden gives 50 days off during pregnancy, paid at 80 percent of earnings, and up to 16 months per child of parental leave after the child is born (i.e., 13 months paid at 80 percent of earnings and three months at a flat-rate payment; (den Dulk 2005)). Norway, Denmark and Finland require a minimum of 52, 30 and 44 weeks paid at 80 percent, 100 percent and 66 percent, respectively (Kelly 2006). Public policies in Western European
countries call for mid levels of parental leave. For example, Italy mandates that new
mothers receive 26 weeks of parental leave paid at 80 percent of earnings, France
requires 18 weeks of fully paid leave and the Netherlands, Luxembourg and Austria
provide 16 weeks of fully paid parental leave (den Dulk 2005; Kelly 2006). Asian
countries recently expanded their family leave policies to increase women’s partici-
pation in the labor force. These revised policies resulted in Japan offering 14 weeks
of maternity leave paid at 60 percent in the public sector and 80 percent to 100
percent in the private sector, South Korea requiring 90 days of leave with the level
of pay depending on the employer’s insurance and Singapore providing eight weeks
of fully paid leave (Kelly 2006). Almost all aforementioned countries require the
option of additional unpaid or low benefit leave weeks (Kelly 2006). The United
States, however, only requires 12 weeks of unpaid leave for larger companies under
the Family and Medical Leave Act (FMLA), with no national regulation requiring any
paid leave (Kelly 2006). While the United States is regulated under the FMLA, some
states have more robust family leave regulations providing more leave time and, in
a few cases, some of this leave time is paid at various percentages.

Community Infrastructure
The community resources available to the general population represent a constraint
or enhancement to any work-life program. The United States, for example, has basic
child-care health and safety requirements for licensure (National Resource Center for
Health and Safety in Child Care and Early Education 2007), so if a company offers
on-site child care or a referral service for child care, parents can be fairly certain that
the providers adhere to minimal standards. These standards (or even the existence
of standards) are different in every country, however. Access to and funding for child
care also varies country to country. Similar to family leave, Nordic countries offer the
most extensive child care. An average of 45 percent to 50 percent of children aged
1-2 years and approximately 80 percent of children aged 3-5 years are enrolled in
publicly supported child care in Nordic countries. Most Western European countries
offer child care as a public service to children ages 3 and older, though care for
younger children is often not granted because of the long parental-leave policies
(Kelly 2006). The percentage of children aged 1-2 years in publicly supported child
care ranges from 3 percent to 42 percent in Luxembourg/Austria and Belgium, respec-
tively, which is significantly lower than the percentage of older children in similar
arrangements. Specifically, an average of 85 percent of children aged 3-5 years are
enrolled in publicly supported child care in Western European countries. Similarly,
Asian countries often offer child care as a public service. For example, about 20
percent of children aged 1-2 years and 85 percent of children aged 3-5 years partici-
pated in publicly supported child care in Japan, and Singapore offers a 25-percent
subsidy of full-time child-care costs to employed parents (Kelly 2006). In the United
States, many families rely on members of their family (i.e., grandparents or older chil-
dren) to care for children or are forced to pay for out-of-home, nonfamilial care (Kelly
Most child care is not paid for or subsidized by the U.S. government, though some low-income families have access to subsidized child care, and other families benefit from lower-cost child care resulting from tax breaks from the U.S. government (Kelly 2006). Similarly, local health care, education systems and support systems for those with special needs will influence the work-life needs of employees from different regions (Sheridan and Conway 2001).

Demography
The population’s profile can profoundly affect what types of work-life policies and practices are most relevant and needed. For example, the United States is facing an unprecedented exodus of its workforce due to the impending Baby Boomer retirements. This situation has led to development and implementation of previously unheard-of practices, such as phased retirement and keeping retirees “on-call” (Harris Mulvaney, Barua and Cronin, 2006; Healy 2006).

Singapore’s state-sponsored Work-Life Unit was briefly described previously. This unit came about, at least in part, because Singapore has been facing a falling fertility rate, an increase in dual-income couples, a fast-growing “sandwich generation” and an aging population. Singapore’s total fertility rate dropped to a historic low of 1.26 in 2003, which was far below the replacement level. A key contributing factor to the low birth rates, based on survey findings, was the lack of work-life balance. Many respondents, particularly the women, indicated a preference for flexible work arrangements, like part-time work, and flexible work hours to help them cope with work and family commitments (Wee 2004). This type of finding is a valuable indicator of what type of approach will be valuable to employees in that region.

Preference for Boundaries
It is also important to note that individuals in different countries tend to construct different types of boundaries between their personal and work roles (Poster and Prasad 2005). Boundary preference is likely a function of most, if not all, of the considerations previously described, but is a qualitatively different factor. Given the home and the workplace are separate spheres of activities and interests, individuals must “manage” competing demands by constructing some type of boundary between...
Some individuals create highly permeable boundaries where their work and personal lives are highly integrated, while others construct solid dividers to maintain separate work and home lives. While there is certainly within-country variation in preference for segmentation/integration of work and family boundaries (Nippert-Eng 1996), there is also preliminary evidence of between-country differences in employee preference for an integrated versus a separate work and home life (Poster and Prasad 2005). This difference profoundly affects the success of work-life policies that tend to encourage integration of work and home (such as telework or flex time). For example, Poster and Prasad studied these differences between the United States and India, finding that U.S. employees prefer an integration of realms through permeable boundaries, while Indian employees prefer segmentation of realms through solid boundaries.

**IMPLICATIONS FOR INTERNATIONAL AND MULTINATIONAL COMPANIES**

With the growing prevalence of multinational corporations, it is essential to understand how country differences affect the need for and success of work-life practices across different countries and cultures. Multinational corporations have a unique predicament when trying to balance how to create and apply organizationwide policies while still accounting for specific country legal, social and demographic differences. To cope with the variation in national culture, multinational companies should implement global work-life strategies that establish shared guidelines, but allow for local differences (Bardoel and Cieri 2006). For example, a corporation may have a common work-life philosophy or set of standards, but execute that philosophy depending on more “local” needs.

Shapiro and Noble (2001) found evidence of three themes across cultures in factors that employees identify as being important barriers to reconciling work and personal life: a lack of flexible work policies and practices, the availability and affordability of dependent care and the negative effect of work overload and long working hours. Addressing these types of broad issues can form a foundation for a work-life philosophy or strategy; however, room exists for tremendous variation in how these barriers are addressed in different locations.

Dow Corning, for example, administers a survey to sites across the globe. The survey’s results identify unique needs and inform specific programming in individual countries (Ganss, Sher and Roundtree 2007). In addition to conducting survey studies of employees at various international work sites, benchmarking is another beneficial method for multinational companies trying to identify country work-life norms and needs. Benchmarking in this context involves identifying and evaluating the work-life policies and practices offered by other companies within each target country (and usually within the company’s industry, if possible). This allows organizations to identify and develop plans on how to adopt the practice(s) that would be best suited in each cultural environment. For example, benchmarking may reveal diversity in prevalence of nonrequired flexible work arrangements, such as part-
time work, flex time, telework and compressed workweek practices (den Dulk 2005). A study by den Dulk (2005) revealed that 94 percent to 100 percent of employers in the Netherlands, Italy and the United Kingdom offer part-time work to their employees, but only 67 percent of employers in Sweden offer the same benefit. Conversely, 92 percent of Swedish employers offer employees flexible work hours (e.g., flex time), while 64 percent to 70 percent of employers in the Netherlands, Italy and the United Kingdom offer the same benefit (den Dulk 2005). This study found that telework and compressed workweeks are generally offered by fewer employers. Telework is offered by 39 percent of Swedish employers, 25 percent of British employers, 20 percent of Dutch employers and 5 percent of Italian employers. Similar prevalence trends occur for compressed workweeks, with 47 percent of Swedish employers, 40 percent of British employers, 30 percent of Dutch employers and 5 percent of Italian employers offering this schedule benefit (den Dulk 2005). Companies can use information like this to construct work-life benefits that match each country’s norms and needs, ultimately resulting in improved recruitment and retention, satisfaction and employee well-being.

In sum, multinational organizations may start developing a work-life strategy by addressing global concerns such as flexible work arrangements, dependent care and work hours (Shapiro and Noble 2001), while keeping the implementation of these practices flexible to individual-country variation. To tailor the specific policies and/or practices, companies must consider the role that individual culture and traditions, key stakeholders, public policies, community resources and infrastructure, and demographics play in the development and success of a work-life strategy across several countries. Once these factors are taken into consideration, companies should further investigate specific country norms and needs through surveying a diverse representation of employees and/or benchmarking similar organizations in target nations to identify the specific policies and practices that will work with employees’ cultural desires and needs. These methods will provide a solid work-life foundation to allow multinational companies to be competitive in an increasing global economy.
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Executive compensation plans include so many complex elements, addressing the field’s many dramatic problems can seem daunting. One progressive idea uses only the payout methodology of variable compensation, commonly known as bonuses, to significantly enhance the alignment of interests and incentives for stakeholders ranging from executives to rank-and-file employees to shareholders.

Stewardship-sequenced payout (SSP) structures the distribution of available bonus funds so those who influence least the generation of those funds are paid before those with more responsibility. No alterations to metrics or targets are necessary for this subtle shift to substantially strengthen incentives for executives to act with the interests of a broad range of stakeholders in mind. A prior WorldatWork Journal paper introduced this innovative approach (Clark and Krishnamurthy 2007) and positioned it within relevant theory on the topic (Donaldson and Davis 1991; Jensen 1994; Stroh, Brett, Baumann and Reilly 1996; Perel 2003). This paper details factors for those considering its adoption and, first, explores financial and symbolic outcomes of SSP compared with more common payout methodologies.
Consider two otherwise identical companies. One with a conventional bonus plan, and the other with SSP, both come up about 5 percent short of planned revenue in a given period. As detailed below, the bonus allocations of the conventional company kick in before it fulfills the budgeted level of operating income previously approved by the shareholders’ fiduciary representatives, the board of directors. But by assuring that promises to shareholders are kept first, the management team of the company using SSP feels the impact of any shortfalls much more sharply, creating clear incentive to apply their influence more effectively for their own, as well as everyone else’s, benefit. The essential difference between the two companies is reflected in typical outcomes: the conventional model tends to satisfy management sooner and puts the onus on the board of directors to push for improvements on shareholders’ behalf, while SSP tends to satisfy shareholder interests first and motivates executives to improve performance for their own and others’ benefit. The following example details the process and effects of this difference.

**COMPARISON OF ALTERNATIVE PLANS, SHORTFALL SCENARIO**

Companies C and S are alike in all respects except for their bonus payout mechanisms. Both companies secured advance approval from their boards of directors for their operating plans and budgets, which both call for financial results that yield $20 million in total bonus payments.

The firm using the conventional methodology, company C, begins bonus allocations $40 million below the planned operating income. From that level on up, shareholders and each class of employees share the rewards concurrently, as if a card dealer were distributing dollars one by one, going around the table in cycles. By the time the company delivers to shareholders net operating income after bonuses that meets the approved plan, it would have paid out exactly 100 percent of each employee’s targeted reward.

Meanwhile, company S follows the stewardship-sequenced methodology for bonus payouts. All operating income is retained for shareholders until the planned level of net operating income is achieved, after which incremental funds are directed to bonus payouts in sequence. This is akin to a card dealer distributing full allocations to successive players as long as supplies last.

As shown in Figure 1 on page 46, the plans for both companies called for revenue of $1 billion, prebonus operating income of $120 million and net operating income of $100 million. But actual revenue came in at only $950 million, 5 percent short, producing a $10 million shortfall in prebonus operating income.

For conventional companies like C, shortfalls in bonus payout are not always as large as the shortfall in operating income, because the sharing mechanism kicks in before promises to shareholders have been fully met and, therefore, spreads the impact. In this instance, company C’s sharing began at the $80 million mark, with one-half of the $30 million in incremental operating income going to shareholders and to all classes of employees concurrently. In contrast, company S must secure sufficient oper-
ating income for shareholders before allocating any rewards to employees, leaving just $10 million in excess of the $100 million planned bottom line available to fund employee bonuses.

This difference alone demonstrates company S’s enhanced stewardship for the interests of shareholders, delivering in this scenario $5 million more in net operating income for use in business reinvestment and/or dividends. But stewardship also extends to the sequencing of employee interests thereafter, aligning risk of shortfalls with degree of influence and responsibility for the company’s performance.

Figure 2 shows the differing outcomes in employee bonus payouts, with both companies starting with planned distributions across employee tiers that reflect the number and pay level in each, here approximated as 50 percent of the target pool to rank-and-file employees, 30 percent to managers, 15 percent to executives and 5 percent to the CEO.

What different signals and incentives are created by these alternative payout methodologies within the two companies? The board of directors of company C is less than satisfied with the below-plan performance, and wants to ensure results improve in the future. But the executives and other employees, having been paid 75 percent of their bonus targets, don’t entirely share the discontent. The CEO says all the appropriate things to the board and gives pep talks to the staff about making the plan next year, but then turns attention to spending a $750,000 bonus check.

There is an altogether different mood at company S. The board is pleased that shareholders have received satisfactory returns in operating income, and rank-and-file employees earned all they were hoping for. But the management team didn’t get the benefit of spreading the shortfall across others with less influence and responsibility, instead bearing it themselves. The full impact hit them directly, creating urgent incentive to improve. Led by the personally affected CEO, management springs into action to address the causes of the shortfall and better ensure their own payout—and, therefore, everyone else’s—next year.

The two companies had equivalent top-line performance, yet payout methodologies yield substantially different bottom lines and incentive mechanisms for inspiring value-creating behavior. One system rewards all employees concurrently before fully satisfying shareholder interests, leaving the board to urge for improvement, while the other provides for shareholders first and creates urgency chiefly in those with the most influence on, and responsibility for, future performance.

SSP would deliver better bottom-line outcomes for shareholders over time than conventional methods. It’s a mathematical certainty that, compared to the conventional alternative across numerous iterations of accounting periods, this type of plan
would pay more/more often to those earlier in line and less/less often to those later in line. This fact would resonate within the investment community, enhancing shareholder value through better reliability of bottom-line results, increased expectations and, therefore, preference over conventional companies. Results would be distinctly beneficial for shareholders, as well as for most rank-and-file employees. SSP outcomes for middle managers would be about neutral relative to conventional plans, depending on precise pay levels, bonus targets and their interests as potential shareholders. Executives would benefit from SSP as major shareholders, but impacts to their bonus payouts would be negative in the long run—substantially so for those at the end of the line, CEOs.

**MODERATING INCENTIVES AND DISINCENTIVES**

For ambitious executives, this transfer of risk and prospective reduction in aggregate bonus payout might tend to make SSP less attractive than conventional plans, potentially creating disadvantages in recruiting and retention. But several factors combine to moderate this effect and even build preference for the unconventional plan. First, bonuses are but one element in compensation packages, which can and should be designed to insulate productive employees from short-term downturns in a company’s fortunes. Salaries and benefits are not altered in this design, assuring largely consistent income streams and standards of living. Moreover, bonus targets can be adjusted to make the upside potential somewhat offset the downside risk, while still keeping payout contingent. Second, bonuses can and should be variable, dependent on performance and scaled to metrics, which ambitious executives strive for as merit pay. With the stewardship-sequenced methodology, bonus pay is more distinctly correlated with meritorious performance at every level in the hierarchy. Third, the very attributes of the plan making it an attractive step toward addressing certain governance and ethics problems make it a point of pride to work under, especially as awareness becomes more widespread. Conscientious people respect and honor its provisions, not in spite of—but because of—elevated performance expectations and more deserved and sensible outcomes to be proud of. Last, such a plan being in place creates a prescreening mechanism in hiring processes, where like-minded candidates self-select. Companies that choose such an innovation as a distinctive element in their corporate cultures can benefit from such a succinct clarification of expectations coming in.

**FIGURE 2** Profit Distributions

<table>
<thead>
<tr>
<th>Payout of Profits $ millions</th>
<th>Plan Co.</th>
<th>Actual Co.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholders (Op. Inc.)</td>
<td>100</td>
<td>95%</td>
</tr>
<tr>
<td>Employee Bonuses Total</td>
<td>20</td>
<td>75%</td>
</tr>
<tr>
<td>Rank &amp; File</td>
<td>10</td>
<td>75%</td>
</tr>
<tr>
<td>Managers</td>
<td>6</td>
<td>75%</td>
</tr>
<tr>
<td>Executives</td>
<td>3</td>
<td>75%</td>
</tr>
<tr>
<td>CEO</td>
<td>1</td>
<td>75%</td>
</tr>
</tbody>
</table>
ETHICS CONSIDERATIONS BY METAPHOR

Despite the intuitive appeal of this or other alternative methodologies, what’s being referred to here as the conventional approach has been the norm for decades, with ubiquitous use across the American corporate landscape today (Balsam 2002). Ethics are, in part, evaluated in relation to such normative trends of adoption by free majorities, so what’s commonplace may seem adequate (Carr and Valinezhad 1994). But ethics are not binary, with only passing or failing grades; rather, they’re a scale along which activities can be ranked and evaluated (Perel 2003). This is not to allege that conventional payout systems are not ethical, only that several factors suggest they may be less so than SSP when compared side by side.

The lack of corporate disclosure about compensation details such as payout methodologies complicates straightforward comparisons of the ethical dimensions between the methodologies. But imagine if bonus payouts were as obvious and open to public scrutiny as, for example, the metaphorical distribution of punch at an annual meeting of shareholders. Those with greater influence in management are more responsible for ensuring sufficient punch is in the company punchbowl to go around. Scaling with that level of responsibility is the size of each person’s cup, from thimble-sized cups for each individual share of stock owned through pixie cups for the hundreds of rank-and-file employees, tumblers for scores managers, pint glasses for the executives and a “Big Gulp” for the CEO.

Under the conventional payout methodology, the parties get equal fractions of their differing cups filled concurrently with whatever punch is made available. So imagine the uproar if, for all to see, those most responsible for an only half-full punchbowl were getting their large glasses half-filled while the invited guests’ half-filled cups amounted to mere sips. Attendees would think it impolite at least, ungracious or even unethical at worst, shaming the biggest takers. Yet just this sort of outcome is institutionalized across the corporate landscape, not by anyone’s intention as much as by habit, and continues to happen period after period, out of plain view.

Companies that institute a plan affecting only the sequence of the lineup at the punchbowl, not necessarily the size of each person’s cup, demonstrate stewardship by the sequence chosen. If the executives do their jobs well, may their “cups runneth over,” but not unless they’ve secured others’ interests first.

Evaluation of alternative methods is simplified by thinking through such an explicit metaphor as a punchbowl for a bonus pool. Real-world topics of compensation and profit-sharing are complicated by the abstractions of what little information is made available, but the fundamental concept of stewardship need be no more complex than the highly visible distribution of punch at the annual meeting of shareholders. Under the SSP methodology, shareholders queue first, followed by employees in ascending order of responsibility for generating enough punch in the first place, and cups get filled only as long as supplies last. Under any scenario of outcome, from little available punch to an overflowing bowl, all those who’ve bought into the
company objectives could agree on the common sense of the payouts—even those who might be left thirsty in some periods.

After all, top employees’ right to rewards for performance is not in question in this paper, only their right to get them before providing for the interests of those with whom and for whom they are employed. The funds in the balance are bonuses, meant to be paid on behalf of the owners as rewards for particularly beneficial behavior. These funds are only one element of the income stream, meaning executives’ basic livelihoods are intact irrespective of the payout scenario. Executives being interviewed for a firm with such a distinct element in its culture know the parameters going in, giving all involved a useful test of cultural alignment. But even where staffs experience a radical change from a typical payout system to SSP midway through their tenures, reactions aren’t necessarily negative, as detailed in the following example.

**SSP IN ACTION—PLANAR SYSTEMS’ EXPERIENCE**

Lacking even a catchy name at the time, SSP was hardly a systematic approach for aligning responsibilities with rewards when new leadership introduced the idea in 2000 to the board and management staff of Oregon-based Planar Systems, a small-cap technology firm. Balaji Krishnamurthy, one of the authors, was hired as the flat-panel-display maker’s CEO in late 1999, in large part because of his innovative approaches drawn from experience in technology research management and the board’s desire for change. But this idea was unprecedented.

Krishnamurthy envisioned a compensation model that would reward him and other executives well, just not until responsibilities to those of less influence had been fully met. Planar had particular challenges at the time requiring every employee’s renewed commitment to shareholder returns, but the intuition behind the idea seemed fitting for any for-profit company with mostly nonemployee owners, irrespective of near-term context or business model. The board of directors, impressed with the increased prospects for delivering satisfactory returns to shareholders, confirmed its viability with compensation experts before endorsing the unconventional approach. Timothy Clark, as Planar’s investor relations director, crafted the external communications to generate awareness and leverage shareholder value from not just the plan’s value-building prospects for improving financial results but also from market perceptions of the company’s unique governance provisions.

In addition to the general parameters of SSP presented here, Planar instituted financial and operating performance requirements for payout to higher tiers of employees beyond the basic availability of bonus-pool funds. For managers to receive bonuses, shareholders and rank-and-file employees must be made whole first, with bonus funds to spare, but a hurdle level of return on investment was also required to be cleared. For executives, hurdles included ROI as well as profitability metrics. And the CEO’s payout was further contingent on measurable economic value creation. These additional provisions amplified the shareholder priorities in the incentive
and reward structure at Planar, but are not required elements for the key benefits of SSP methodology to be realized elsewhere.

Compensation for all employees was structured to be midmarket for base pay and benefits but in the top quartile of comparable firms when target bonuses were achieved. Planar’s executives, many of them newly recruited by Krishnamurthy, were enthusiastic about the upside potential of the bonus plan and admired the commitment to shareholders’ and other employees’ interests it engendered. Managers and rank-and-file employees tended to respond favorably to the prospect of more likely payouts and especially to being fully rewarded even in cases where their bosses might not be.

Planar’s bonus plan called for quarterly payout targets equal to one-fifth of each employee’s annual target, plus a fifth distribution based on full-year results. During nearly five years in place, the plan delivered all the scenarios prescribed: there were periods where not even shareholders were made whole due to large shortfalls in operating income, periods where shareholders and some portion of employees were fully rewarded but management wasn’t, periods where all targets were just about met and periods where targets were greatly exceeded.

Throughout, the program was considered successful at relating outcomes to responsibilities, though its role offsetting Planar’s broader challenges is impossible to determine. In late 2005, facing rapidly shifting markets and differences of opinion between management and the board, the company faced turnover of the CEO position and much of management staff. Shortly after the appointment of new C-level executives, compensation plans were restored to more conventional designs reflecting the new leadership team’s philosophy and focus.

Krishnamurthy’s vision and Planar’s innovative compensation programs, devised and implemented prior to the upswing in attention to corporate governance stirred by recent scandals, were first widely introduced in an extensive interview that ran in the annual special section on executive compensation in *The Wall Street Journal* (Lublin 2003). Though the article inspired extensive inquiries, SSP methodologies have yet to be widely adopted. This paper’s details of the model and procedural steps are intended to facilitate further consideration by interested thought leaders and practitioners and simplify implementation.

**THE PROGRAM’S WORKINGS**

SSP methodology can adapt to a great variety of business types, sizes and employee compositions. Business models with widely varying ranges of profitability ratios can be accommodated, by scaling the target bonus pool and individuals’ target payouts. Planar’s particular implementation used five tiers of payout, sequencing shareholders, then rank-and-file employees, then middle managers, then executives and placing the CEO last, similar to Figure 1 and Figure 2 and the figures in the authors’ earlier paper (Clark and Krishnamurthy 2007). But employees can be grouped according to any reasonable classifications, with no limitation on the number of payout tiers. One some-
what impractical extreme would rank every employee on a hierarchy list, with the available bonus funds distributed one by one to the extent of the high-water mark on the list. Most useful for teambuilding, however, seems to be relevant groupings according to level of influence on end results. It is also possible to create a hybrid design, where some stakeholders’ interests must be fully served first, after which other payouts flow concurrently. Further, the model’s versatility allows for easy application in companies structured by numerous business units, with targets, bonus pools, tiers and payout sequences separately established for distinct work groups.

For accountants and auditors, calculating SSP bonus distributions each period need not be more complicated than for conventional payout methodologies. Performance in operating income drives accruals for projected bonuses under either system, with payouts then formulated from known parameters and actual performance at each period’s end. As long as the parameters are clear, the details are straightforward. Also, there are no differences in requirements for external reporting, though explanation of the methodology and its intentions is possible in quarterly and annual reports, and such elaboration is likely to be beneficial for extending awareness and generating value from shareholder preference.

Deliberation at the board level could take many forms. If the idea for SSP originates with present executives, as in the case of Planar Systems, the process of gaining favor for the program is smooth once benefits for shareholders are understood. But if the board decides to establish SSP before executives are convinced, difficulties akin to the recruiting challenges mentioned earlier could arise. The discussion may best occur in the context of potential restructuring of entire compensation packages, such that newly introduced risks come with commensurate reward potential. Executives who recognize the common sense of prioritizing shareholders’ and others’ interests before their own, at least with regard to rewards for what should be meritorious performance, are likely to embrace the idea and champion it more widely. Those that don’t may be revealing a lack of philosophical alignment with the evolving corporate culture, for which boards may find such specific indicators to be useful for taking action.

Board compensation committees considering implementing such an unconventional compensation methodology must consider its fit with their company’s needs and be aware of the plan’s potential downsides. One risk regards the creation of new temptations and means for employees to “game” the system for personal benefit. Bonus plans of all forms have always been liable to this, meaning boards must wisely exercise their fiduciary responsibility to set thresholds that appropriately balance shareholder interests with employee incentives to reach challenging targets. Conventional bonus plans tend to moderate the effect of employees conceding defeat or striving for more as results take shape toward the end of the period, since bonuses are scaled proportionately and aggregated across tiers. But SSP creates thresholds that could tempt certain tiers of employees to relax efforts if they’re already “in the money,” lose focus if they’re “out of the game” or, worse, pad the numbers if they think their personal benefit is hanging in the balance.
These unintended consequences, which are risks also present in conventional plans, are accentuated in SSP by the discrete thresholds between sequential payout tiers. Of course, the complexity of the many variables driving operating-income results reduces the influence of such effects, making specific outcomes impossible to forecast accurately until the books are closed. But it’s a risk deserving consideration and vigilance, primarily in the form of broad and open communication.

COMMUNICATION

A different type of potential downside relates to external communications challenges with respect to explaining the real effects of SSP, especially where a company’s business is volatile. In instances where growth is slow or declining, prior-period comparisons can create the false impression that SSP is negatively impacting profitability, even when deficits are actually due to employees absorbing the brunt of shortfalls and insulating shareholders’ bottom line in prior periods of poor performance. But when financial plans are set for the next year, incorporating revised bonus thresholds that are realistic and reachable for employees, it could appear to ratchet back the bottom line for shareholders. The problem is one of comparison, since positive preservation of shareholder value in the earlier year causes the subsequent year to compare poorly if employee bonus hopes are going to be prospectively restored without commensurate growth in the business. But SSP is still a better method for protecting and promoting shareholder interests, despite the added communications required for clarity. By contrast, conventional plans would have paid partial bonuses during the subpar year, cutting into shareholders’ bottom line and lowering the bar for the next year. Where constituencies are unfamiliar with SSP provisions, communication of the plan’s many benefits must overcome suspicions likely to result from such nuances. This represents a substantial burden on external communications functions, but investments in spreading awareness and understanding can also yield distinct benefits in the market.

Shareholder communications can begin immediately following authorization of plan implementation, both to promptly refine expectations of its impact to the bottom line and, at least as important, to build value through market preference. Investor commu-
nications are no less competitive among peer companies than battles for product market share and brand awareness. So such distinguishing attributes as progressive compensation programs provide new channels to gain attention and build awareness and affinity. Moreover, in certain markets, this value-generating outreach could include a company’s partners, suppliers and, of course, customers, many of whom factor intangibles like management’s stewardship qualities into their decisions regarding with whom to do business. Particularly with the growing number of socially responsible investors and analysts, progressive governance provisions can be leveraged for unprecedented attention that, ultimately, further builds shareholder value. This potential benefit applies to publicly traded firms best, but could be realized in any company where agents are responsible to nonpresent owners (Stroh et. al. 1996).

Dialogue with managers and rank-and-file employees is also appropriate even before a decision is finalized regarding the implementation of an SSP plan. The extent to which these employees welcome and are inspired by the plan’s provisions is largely determined by their level of understanding of the rationale behind the change. They are likely to be impressed with being prioritized for bonus payouts ahead of their bosses, but a thorough understanding throughout the workforce of the precedence of shareholder interests is valuable on many more levels—and that’s a conversation that SSP systematically renews every period. This “incentivizes” long-term wealth generation that benefits all stakeholders.

Which is the whole point, of course. Stewardship-sequenced payout builds value by aligning incentives with capacity to influence, delivering better bottom-line outcomes for shareholders and creating market preference. It should not be mistaken for a solution to larger and more complex matters of compensation, but rather as a realistic, relatively simple and ready tool for one important element: the alignment of owners’ interests with clear incentives for the company’s stewards.
AUTHORS

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Balaji Krishnamurthy, Ph.D., was chairman, president and CEO of Planar Systems until 2005, and subsequently founded LogiStyle. Prior to joining Planar in 1999, he rose through research and general-management roles in the technology sector, having earned advanced degrees in mathematics and computer science from the Birla Institute of Technology and Science and the University of Massachusetts at Amherst. In 2004, Time magazine profiled Krishnamurthy as one of 25 influential business leaders worldwide.

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A strong culture is important for continuing success in American business, and consideration of culture is now at the top of the agenda of many business leaders and HR professionals. Corporate culture is as important as business strategy for company success, according to 90 percent of 1,200 international executives (Bain 2007). HR executives identify organizational culture as the second-most pressing challenge facing them (Mercer 2007(1)). This emphasis appears justified because one survey found that only 44 percent of American workers believe that their employer has a widely understood and embraced corporate culture (HR Focus 2005).

Reward systems are an important characteristic of an organization contributing to its culture. Depending on how reward systems are developed, communicated and managed, they can support, hamper or change the direction of a firm’s culture.

WHAT IS ORGANIZATIONAL CULTURE?

Organizational culture is the system of shared values, beliefs and actions that develop within an organization and guides the behavior of its employees. It affects most
aspects of organizational life, from the ways people perform their work and dress, to the nature of a firm’s strategy and key business initiatives. It has been described as the organization’s personality, and just as no two personalities are the same, no two organizational cultures are identical.

Scholars believe that culture can significantly impact organizational performance and the work experiences of its employees. Much of the culture’s substance is concerned with the interactions between the employee and the organization (Kerr and Slocum 2005).

IMPORTANCE OF REWARDS

One key component of culture is its system of rewards, which reflects the values of the organization, desired actions and inducements offered to its members for desired results (Kerr and Slocum 2005) (Young 2000) (Schein 1996). For example, promotional and performance-management systems specify the behaviors the organization expects of its members. One firm may value loyalty and grant pay increases for tenure. Another may value competitiveness and grant increases based on a forced distribution of performance ratings. In these instances, reward systems define and structure the terms of the exchange relationships between the employee and the firm.

Problems occur when rewards do not fit the culture or the new direction desired by an organization. Recent examples of this mismatch are the much-publicized failures of companies to adopt a forced-ranking system for employee retention and pay increases, based on General Electric’s successful program (Burkholder 2005). Another example: recent research shows that some public accounting firms, which advertised a commitment to work-life initiatives, fail to gain management acceptance of the new direction and look less favorably on promotional candidates who choose an alternative work arrangement (Kelley 2007).

OVERCOMING THE CHALLENGES FOR THE TOTAL REWARDS PROFESSIONAL

Total reward professionals may feel uncomfortable operating in the area that links rewards to culture for two reasons. First, their organization’s culture frequently is not defined and discussed, so they may only have a vague sense of it and are unable to describe its complexity (Mercer 2007(2)). Second, some may be unsure of the messages that specific reward programs convey to employees.

Total reward professionals can better grasp a firm’s culture by using one or more of the following methods to identify it: a review of company histories, mission and value statements; organizational culture survey; employee interviews; focus groups; and a cultural identification “task force” led by a consultant or in-house organizational development specialist. Experts do not always agree on the best approach, and arguably, the leading organizational-culture expert, Edgar H. Schein, recommends a straightforward approach using a task force (Schein 1999). In the best of circumstances, organization development specialists will have studied the matter and will
have a firm grasp of the culture. One common approach to describe an organization’s culture is addressed in this paper.

Total reward professionals can obtain insight into reward messages by focusing on the purpose of a reward plan, beyond its administrative goal. For example, a broad-banded salary structure may be adopted to achieve two goals—to streamline the administration of pay structures and to reflect a flatter organization with fewer hierarchical promotions. The latter goal has greater cultural import, because it limits some employees’ advancement opportunities and substantially affects the employment relationship. Professionals who have such insight are better able to communicate with employees to show them how reward systems are consistent with the firm’s strategy and culture, and to fine-tune the interaction between plans.

Employee perceptions of reward programs are important. According to two experts, the best test of the strength of a culture is how clearly it is understood by the lowest level of employees (Gallo and Stokely 1998). The opinions of management, focus groups and surveys may be necessary to identify employees’ perceptions of reward programs.

**CULTURAL PROFILES**

Many have chosen to study organizational culture based on the values held by its members (Ashkanasy, Wilderom and Peterson 2000). One respected source believes that values are the essence of a company’s philosophy for achieving success, and also provide employees with a common direction and guidelines for daily behavior (Deal and Kennedy 1982).

In the “competing values” model, a framework for understanding culture is built along two intersecting, perpendicular axes. One axis reflects whether an organization focuses its attention inward, toward internal dynamics, or outward, toward its external environment. The other axis reflects a preference for flexibility versus control of organizational processes and structure. As shown in Figure 1, the intersecting axes create four types of cultures, with an associated set of valued outcomes and managerial approaches to attain them. Together, the cultural types also reflect the

**FIGURE 1** The Competing Values Framework (Cameron and Quinn 1999)
major shifts in managerial thinking and, to a certain degree, trends in total reward practices (Zammuto, Gifford and Goodman 2000).

Following are the four cultures described by the model’s authors, Kim S. Cameron and Robert E. Quinn (Cameron and Quinn 1999 and 2006):

- **The hierarchy culture** focuses more on internal than external issues, and values stability and control over flexibility and discretion. It relies on formal structures, policies and procedures to manage the organization. Maintaining efficient, reliable and fast-moving operations is important. The management style is characterized by conformity, stability in relationships and employment security. The HR manager is an administrative specialist who uses management tools such as process improvement to build an efficient infrastructure. McDonald’s arguably is an example of this culture, with its mystique of quality, service, cleanliness and value.

- **The clan culture** also focuses on internal issues, but values discretion rather than stability and control. The goal is to manage the environment through teamwork, participation and consensus. Relationships and teamwork, not hierarchy, are the defining unit of activity. The organization has more of a family than a business feel. The HR manager is an employee champion who measures the pulse of the firm to build commitment. An example is Southwest Airlines, which believes that showing respect for people is central to its culture.

- **The market culture** focuses more on external issues, but values stability and control. It has a strong sense of mission and its customers. It is concerned with productivity, consistency, results and the bottom line. The predominant management style is characterized by hard-driving competitiveness, high demands and achievement of goals. With its outward focus, best practices and benchmarking are used to develop policy and practices. The HR manager is a strategic partner who aligns HR programs with business strategy to improve business results. In some respects, General Electric is an example of a market-driven firm whose former CEO’s business philosophy includes the belief, “Control your destiny, or someone else will.”

- **The adhocracy culture** focuses on the external environment, but values flexibility and discretion over stability and control. Its key values are freedom, creativity and risk taking in a dynamic, entrepreneurial environment. The HR manager is a change agent who develops the organization to renew its highly valued human capital. “Be a part of the revolution” has been a recruiting theme for Apple Computer, a possible example of this cultural profile.

As a practical matter, few organizations can be described fully with one model, as most possess elements of each profile and some will have different “subcultures.” Nevertheless, experts believe a dominant culture or “glue” binds many organizations (Cameron and Quinn 2006). The competing-values framework assists in identifying a dominant culture by its core beliefs and provides a common perspective and language for describing it, which facilitates a systematic linkage with appropriate rewards.
LINKING REWARDS AND CULTURE

Following is one example of how reward systems align with the four organizational culture profiles. Rewards are associated with a culture based on the author’s experience, as well as the opinions of experts, when available.

Hierarchy Culture

This culture profile includes the following:

- **Rewards emphasis.** The reward systems respect the hierarchy and the need for a predictable and secure environment, where individual needs are subordinated to the organization’s goal of smooth-functioning systems and processes.

- **Base pay.** Formal job-evaluation programs, such as point-factor plans, are most appropriate for this culture because of its need for rational systems that provide stability and control. Well-defined procedures for conducting outside surveys based on jobs help keep salaries competitive and employees content.

- **Incentive pay.** Plans, differentiated based on organizational levels, reinforce the importance of the hierarchy and formal working relationships. Payouts in such plans tend to be based on a manager’s ability to maintain efficient and fast-moving operations. Plans rewarding lower-level employees for contributions to improve operational efficiency, such as Scanlon plans and suggestion programs, have a place here.

- **Performance management.** Highly structured, formal plans with clear performance expectations, these plans are in sync with the culture. Plans should also include measures reflecting an employee’s ability to exhibit the conformist behaviors of the culture.

- **Recognition programs.** Companies with a strong culture pay a great deal of attention to recognition rituals since they dramatize the company’s cultural values. The best-run companies ensure employees clearly understand the reasons why recognition is given (Deal and Kennedy 1982). In the hierarchy culture, recognition plans are formal in nature, with highly defined criteria for recognition, formal procedures for submitting candidates and specifically defined awards. Banquets and dinners are the chosen means for presenting awards, not informal gatherings in the workplace. Service awards have the benefit of rewarding continued service and experience, a prerequisite for a smooth-running organization.

- **Benefits programs.** Benefits plans would be on the generous side to underline the organization’s goal of providing security and reasons to stay, consistent with the emphasis on employee retention. Specific programs are traditional in nature, as the organization is a follower of trends rather than a leader. Retirement plans are more likely to include defined benefit plans funded by the company. Health-care plans also tend to be traditional, and new concepts are introduced more to realize savings than to provide more choice for employees. Flexible benefits plans are viewed as too complex and costly to administer to warrant serious consideration. Benefits call centers would be favored over face-to-face service at the workplace, which is consistent with the culture’s emphasis on efficiency.
Work-life initiatives. This culture would be slow to adopt work-life initiatives. For example, flex time would be given a hard look due to its potential for upsetting the organization’s deeply ingrained operating patterns and concern for efficiency. Casual dress codes would be viewed as inconsistent with the conformity and formality driving the organization and as a message to employees that operating standards have been relaxed (Morand 1998). If changes are made, they would be in response to outside pressures, such as a shortage of key talent, and tend toward tokenism, such as casual dress only on Fridays and flex time only to accommodate specific events.

Clan Culture
This culture profile includes the following:

- **Rewards emphasis.** Reward systems respect the organization’s traditions, interpersonal relationships and focus on employee needs. These systems bind the workforce into teams to meet business challenges. Such firms will be in the forefront of compensation innovations, such as an open salary policy and a salary cap to limit executive pay to no more than a specified multiple of the lowest-paid employees (Fishman 1996).

- **Base pay.** With the strong emphasis on interpersonal relationships, base pay programs, such as job evaluation plans, should value internal salary relationships. Plans using committees to evaluate positions will have credibility in this team-focused culture. The company provides salaries at or above the company’s competitive levels, as only a caring family would do. New hire referral bonuses are appropriate because they tend to foster the hiring of like-minded individuals who will fit into the family. It would be reasonable for companies with this culture to avoid layoffs by asking all employees to take pay cuts.

- **Incentive pay.** Precedence should be given to team-based incentives that support the goal of effective team management. All employees should participate in such programs, not solely those at the organization’s top.

- **Performance management.** Narrative methods without structured formats, guidelines and an actual rating are acceptable in this setting. The emphasis is on the attainment of competencies and exhibiting the common values binding the culture to make the team stronger, rather than quantitative goals. With its strong focus on interpersonal relationships and the evaluation of people in different roles, 360-degree evaluation systems have a logical home here. Team appraisal is a reasonable option, as it recognizes that company effectiveness results through the contribution of teams.

- **Recognition programs.** Recognition should be given to the accomplishments of group efforts or as many individuals as possible, in informal ways, consistent with the family atmosphere. When significant goals are accomplished, group junkets to vacation spots, with spouses and partners, are appropriate. Personalized benefits, such as a birthday lunch or day off, are consistent with the family atmosphere.
Benefits Programs. The benefits plans are competitive and avoid excluding groups, such as domestic partners, because it would disrespect individuals and divide the family culture. Flexible-benefit offerings are appropriate because they communicate that the company realizes the employees have different needs, and those needs cannot be recognized with a "one-size-fits-all" benefits plan. Efforts should keep employee copayments low to send the message that the employer is doing all it can to protect employee welfare. Programs encouraging employees to lead a healthy lifestyle reinforce the company’s concern for the individual employees and dependents. There is no need to combine all forms of time off into one plan (e.g., vacation, illness and personal business) to prevent abuse, because doing so would indicate a breach in the trust expected of “family” members. Retirement plans would be competitively funded and could be either defined benefit and/or contribution plans, based in part on employee desires. Personalized financial-planning services fit this culture, which prides itself on caring for individual needs. This type of “high touch” plan fits the culture, where employees are given help with paperwork and other needs instead of asking them to use self-service systems (Rubis 2005). Firms should avoid providing plans with richer benefits for high-level employees because it can create divisions in the family culture. Adoption assistance and paid paternity leaves also fit this family-oriented culture.

Work-Life Initiatives. The family feeling is strengthened when the firm actively supports a lifestyle that balances work and home responsibilities. Firms with a clan culture will be leaders in establishing a culture embracing work-life balance. All categories of work-life balance should be addressed—alternative work arrangements, child and elder care, paid and unpaid time off. Programs to keep members in the family, such as job sharing, make sense. Pets at work may be an appropriate policy.

Market Culture
This culture profile includes the following:

- **Rewards emphasis.** Reward systems are driven by the company’s main operating assumptions that it must retain/gain market share to survive and prosper. A great deal of emphasis is placed on individual performance, and employees are expected to shoulder a great deal of risk in meeting their health-care and savings needs, as if they were individual operators in the marketplace. Of all cultures, this one is the closest to having a “contractual” feel to relationships with employees, who must earn rewards based on achieving agreed-upon goals and are asked to take ownership of their benefits plans.

- **Base pay.** With its focus on being competitive in the marketplace, the system for determining base pay should be based on market surveys with competitors in the same industry. Job-based, rather than skill-based, pay systems make the most sense since performance and financial results, which drive this culture, are more closely associated with job responsibilities than with unique abilities and skills, except at the highest
levels, where the job is often designed to fit the incumbent’s attributes. Across-the-board and seniority-based pay increases and other forms of compensation with an entitlement mentality contradict the performance-based orientation of this culture.

- **Incentive pay.** Heavy use of incentives is necessary to achieve aggressive goals and to reward the high demands placed on employees. Payment under such plans should be related to company profitability to build employee awareness of the company’s competitive environment. Stock options and employee stock ownership plans are appropriate since they connect employee contributions and company success.

- **Performance management.** Standards of performance should be high, and procedures should be in place to aggressively remove all poor performers. Forced ranking performance-management systems are fitting, as are those rewarding employees for attainment of core competencies that provide strategic advantage and those that attain new levels of customer satisfaction. Management by objectives is an apt choice since such plans require specific performance goals.

- **Recognition programs.** To maintain high levels of energy in the workforce, significant achievements and aggressive behavior should be celebrated frequently, and on-the-spot pay bonuses should be considered. Programs rewarding employees with movie tickets given in a quarterly drawing, for lending a helping hand to co-workers, are viewed as “fluff” in this hard-nosed management culture, except at the lowest levels.

- **Benefits programs.** Consistent with its philosophy of “survival of the fittest,” benefits programs place considerable responsibility on the employee for ensuring their own welfare and security, and care is taken on limiting the company’s future retiree liabilities, as those liabilities may be a detriment to future profitability. For example, 401(k) plans with a competitive company match, which place the burden and risk of planning for retirement on the employee, would be favored over defined benefit plans. These organizations would be in the forefront in offering consumer-driven health-care plans, with features such as high deductibles and health reimbursement accounts, which hold employees more responsible for their well-being and impart an understanding of the cost of services. Cafeteria plans allowing employees to shop for their benefits, with notional credit dollars for benefits, are a good fit because control is given to employees in a simulated marketplace. Personal time-off plans, combining all forms of time off and rewarding employees for staying healthy or coming to work when they do not feel well, make perfect sense. Employees in this type of organization are favorably disposed to benefits plans giving them more control, the ability to manage their own finances and more portability in their retirement savings. Financial planning assistance should be offered to lower-level employees, but such services are not of value for professionals and managers, unless sophisticated wealth-planning options are in the plan’s focus.

- **Work-life initiatives.** Management believes that these issues are primarily ones for the employee to resolve. While work-life policies exist, they are viewed as mainly
for recruiting purposes; the actual accommodations are to be negotiated individually, based on an employee’s having earned them with performance.

Adhocracy Culture
This culture profile includes the following:

- **Rewards emphasis.** Reward systems are oriented to the need for attracting, motivating and retaining creative employees who satisfy the organization’s need to be innovative. While employees are well compensated, because they are usually leaders in their field, the primary reason for employment is to be a part of an organization that produces cutting-edge products and services.

- **Base pay.** In this culture, one important goal is to manage creativity and innovation. Skill-based pay is a logical fit due to its emphasis on rewarding each employee's unique abilities and skills, rather than a rigidly defined job. Highly creative people, who are the lifeblood of this type of organization, are compensated above many managers and executives, without creating employee relations issues.

- **Incentive pay.** It is a matter of debate about how employees should be rewarded for innovation—bonuses or personal recognition (Jamrog, Vickers and Bear 2006). Some experts believe that to encourage innovative ideas, incentive plans must be devised to reward employees for new ideas. Bonuses for employees who develop patents and achieve technical excellence can be part of the approach. Other experts believe that an overemphasis on monetary rewards risks destroying natural motivation to innovate and changes the focus from true innovation to financial gain. One researcher recommends that a combination of financial bonuses of approximately 30 percent and personal recognition of 70 percent is the optimal balance (Jamrog, Vickers and Bear 2006). Giving employees a stake in the ownership of the firm, through employee stock ownership plans and stock options, is appropriate since company success is directly related to employee creative talent and vision.

- **Performance management.** Cameron and Quinn recommend establishing goals that hold people responsible for producing innovative ideas and pushing the limits of technology, as well as mentoring those who do the creative work. Also, it is impossible to generate a few good ideas without generating a lot of bad ideas, so systems that “punish” inactivity, as opposed to failure for trying, are preferred (Sutton 2001).

- **Recognition programs.** As previously indicated, these programs play an important role in rewarding innovation. Celebrating small successes keeps people involved in developing new processes and products.

- **Benefits programs.** In keeping with the cutting-edge ethos of the company, employees expect the latest innovations in employee benefits—fully flexible benefits plans, sabbatical leaves, 401(k) plans with the latest investment options, personalized financial planning assistance, and health care and life insurance plans that reward healthy living. Benefits programs, however, would not be an important part of the reward
package for employees, as they have joined the organization primarily to be part of the excitement and for the personal satisfaction associated with working in an innovative company (Fuoco-Karasinski 2007).

Work-life initiatives. Programs that support a creative lifestyle, such as flex time and everyday casual dress codes, would be expected by employees. Cutting-edge programs that relieve employees of everyday concerns, such as concierge services and free meals, are appropriate. Extended periods of time off through sabbaticals allow employees to re-energize for creative work. Full or discounted technological services, such as laptops for personal use, would be well received by the technologically sophisticated workforce.

SUMMARY

Reward systems help define the important exchanges in the relationship between employees and the organization, which provides total reward professionals a key role in supporting and changing an organization’s culture. To make the most of this opportunity, they must be able to recognize and describe their corporate culture, and design and communicate compatible reward programs. Learning a cultural profile system and understanding the perceived meaning of reward programs may spell the difference in creating a culture that attracts, motivates and retains the right employees for an organization.

AUTHOR

Frank Giancola (frankgiancola1@hotmail.com) has more than 40 years of HR experience, 25 years with Ford Motor Co., primarily in various compensation and benefits positions, and 23 years with the active and reserve components of the U.S. Air Force as a personnel officer. Giancola has taught human resources and compensation-management courses at several colleges. He graduated from the University of Michigan-Dearborn with a bachelor’s degree in psychology-sociology and earned a master’s degree in business administration and a master’s degree of arts in industrial relations from Wayne State University in Detroit.
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Published Research in Total Rewards

A review of total rewards, compensation, benefits and HR-management research reports.
(Compiled by the editors from the WorldatWork Newsline column.)

Eight Key Predictions Showcase Human-Capital Trends
The successful organization of the future will excel at acquiring, organizing and strategically deploying global resources. That is one of eight key predictions that showcase the trends and events that will change the nature of human-capital management in 2008 and beyond, WorldatWork reports. The HR society said the predictions are intended to compel organizations and total rewards professionals to position themselves to take advantage of the coming changes, and not be blindsided by them. Preliminary findings were announced at the WorldatWork Total Rewards Asia Pacific Conference, which took place in early November in Singapore. (www.worldatwork.org)

Global Study Points to Modest 2008 Salary Growth in Most Regions
A new report projects continuing moderate salary growth in most countries next year, despite expectations for slowing economic growth in some markets. According to Towers Perrin’s “2008 Global Compensation Planning Report,” in the United States, for example, the salary increases are expected to average 3.9 percent across all employee levels in 2008, consistent with the trend of the past few years. The report also tracked budgeted salary increases by employee group. The findings show that, in the United States, executives and senior-level managers are expected to receive salary increases averaging approximately 4.1 percent, while production workers can expect average increases of 3.9 percent. (www.towersperrin.com)

Executive Retirement Plans Alive and Well After Final IRS Rules
An overwhelming majority of employers have no intention of terminating their nonqualified executive retirement plans as a result of final Internal Revenue Code rules governing these arrangements. This finding is among the results of a survey by Buck Consultants, an ACS company. The “2007 Nonqualified Deferred Compensation Survey” was conducted after the IRS issued its final rules in 2007. The survey found 95 percent of respondents will retain their executive defined contribution plans, and 89 percent will continue their executive defined benefit plans. However, in response to the final rules—named 409A after the section of the Internal Revenue Code containing them—approximately 30 percent of these nonqualified plans have been split into two parts, to take advantage of grandfathering provisions in the final rules. (www.bucksurveys.com)

Successful Diverse Canadian Workplaces Focus on Employee Engagement
As the demand for skilled labor in Canada begins to exceed supply, employers will look to previously untapped sources of talent to fill employee ranks. However, research conducted by Hewitt Associates, a global HR services company, as part of the 2008 Best Employers in Canada and Best Small & Medium Employers in Canada studies, indicates that organizations are not likely to retain diverse employees if they do not recognize their unique needs and adapt their work environment accordingly. (www.hewitt.com/bestemployerscanada)

Men, Women Share Views on How Much to Save for Retirement
Retirement savings can be a source of contention between couples as they approach their golden years, but according to a new study, men and women respond similarly when asked whether they and their partners are on the same page about saving for retirement. According to a new poll conducted by Harris Interactive for The Wall Street Journal Online, about one-half (49 percent of men and 47 percent of women) said they are in agreement with their spouse or partner about this issue. (www.dowjones.com)
More Than Three of Four CFOs Say CEO, Chairman Roles Should Be Separate
In a national survey of chief financial officers and senior comptrollers, 79 percent believe the roles of chief executive officer and chairman should be held by different people. In addition, three-quarters of the respondents said they think the Securities and Exchange Commission (SEC) should revise the 8-K rules to require reasons for all company dismissals of auditors, for all auditor resignations and for all instances in which the auditor chooses not to stand for reappointment. The study was conducted by Grant Thornton LLP. (www.GrantThornton.com)

More Employers to Offer Workers Financial Incentives for Healthy Behavior
With continuing pressure to control health-care costs, more companies plan to offer financial incentives to reward workers who adopt healthy lifestyles, according to a new survey. Those employers best controlling costs and increasing productivity are integrating a broad array of health-management programs. Watson Wyatt and the National Business Group on Health, a nonprofit association of 285 large employers, conducted the survey. (www.watsonwyatt.com)

Defined Contribution, Hybrid Plans Prevail Among World’s Leading Employers
Most employers offering retirement plans to supplement government-sponsored pension systems now do so through defined contribution (DC) or hybrid approaches, according to a new global guide. Mercer’s “Introduction to Benefit Plans Around the World: A Guide for Multinational Employers” was created to help global companies more effectively assess, compare and provide retirement as well as medical and other group benefits to their employees. (www.mercer.com/bpaw)

Few Employers Capture Boomer Know-How
Only one-quarter of large organizations are making any effort to transfer knowledge from retiring Baby Boomers to other employees, according to a survey of 2,046 HR executives. In the survey by Novations Group, a Boston-based global consulting and training firm, just 4 percent have created a formal process to pass on know-how, while 23 percent report doing so informally. (www.novations.com)

Health-Care Spending in Canada Continues to Rise
Canada’s health-care spending is expected to reach $160.1 billion dollars in 2007, up from $150.3 billion in 2006, which represents a forecasted annual increase of 6.6 percent (3.2 percent after taking inflation and population growth into account). According to figures released by the Canadian Institute for Health Information (CIHI) in its annual report on health-care spending, “National Health Expenditure Trends, 1975-2007,” health-care spending as a share of Canada’s gross domestic product (GDP) increased slowly but steadily during a five-year period and was expected to reach 10.6 percent in 2007. This surpasses 2006’s estimate of 10.4 percent. (www.cihi.ca)

Workers on Four Continents Cite Financial Concerns as Top of Mind
No matter where they call home, employees’ financial concerns appear to be universal. A MetLife study reveals that having enough money to live on and paying bills after a sudden income loss rank among workers’ top financial concerns, according to employees surveyed in the United States, India, Mexico, Australia and the United Kingdom. For employees surveyed in the United States, India and Mexico, health insurance was also among the top three financial concerns. (www.whymetlife.com/internationalpr)

Nine Out of 10 U.K. Workplaces Grant Flexible Working
Ninety-one percent of U.K. workplaces that received requests for flexible working in the last year approved them, according to new government figures. The research also indicates that more managers are actively promoting flexible work practices. As reported by Croner, the 2007 “Work-Life Balance Employer Survey” found the availability of flexible working arrangements has increased since 2003. Part-time working has become near universal—available in 92 percent of workplaces, compared to 81 percent in 2003. (www.croner.co.uk)
Less Than One Third of European Mergers Create New Value
European corporate mergers and acquisitions are failing to deliver value, as companies struggle to combine corporate cultures and structures, according to Hay Group’s report, “Dangerous Liaisons: Mergers and Acquisitions—The Integration Game.” The report revealed that 91 percent of mergers fail to achieve their stated objectives. This reaches 97 percent when looking at mergers and acquisitions by U.K. companies. (www.haygroup.com)

U.S. Employers’ Health-Benefits Cost Continues to Rise at Twice Inflation Rate
Total U.S. health-benefits cost rose by 6.1 percent in 2007, the same pace as last year, to an average of $7,983 per employee, according to a survey. The good news is that cost increases have held steady for three years (after spiking to nearly 15 percent in 2002) and are likely to slow a bit further in 2008, reports Mercer’s “National Survey of Employer-Sponsored Health Plans.” The bad news is that’s still more than twice the rate of inflation. Health-cost growth is outpacing wages and material costs and eroding business profitability. (www.mercer.com/ushealthplansurvey)

Nearly a Quarter of Canadians Miss Work Due to Depression
Nineteen percent of Canadian workers missed three or more workdays due to depression, stress or anxiety in the last 12 months, according to a new survey. The Great-West Life Centre for Mental Health in the Workplace and Ipsos-Reid commissioned the survey in association with the Global Business and Economic Roundtable on Addiction and Mental Health. Managers and employees were asked about their personal experiences with depression. (www.greatwestlife.com/centreformentalhealth)

U.K. Line Managers Need to be Recognized as Strategic Partners of HR
The role of U.K. line managers is becoming increasingly important in influencing employee engagement in the workplace. This may not be surprising given that line managers play a crucial part in the delivery of effective people management, but what is now becoming clearer is the broadening and deepening of their involvement. New research commissioned by the Chartered Institute and Personnel Development (CIPD) showed confusion as to the role of line managers and focuses on how learning and development specialists and reward professionals can provide them with the support to develop the skills necessary to carry out their roles. (www.cipd.co.uk)

In Workforce Planning, HR, Business Leaders Agree Relationship Needs Work
Significant gaps exist in the working relationship between HR and business line leaders, according to new research. Veritude, a provider of talent acquisition, consulting and management services, released “Working Together, Working Apart,” showing that talent acquisition and retention are the top business and workforce challenges facing companies. However, HR must improve their business leaders’ perceptions of their skills and abilities, and business managers must learn to turn to the “people experts” for support in addressing these significant workforce issues. (www.veritude.com)

Ninety-two Percent of Colleges, Universities Awarded Salary Increases in 2006
Ninety-two percent of colleges and universities granted salary increases in 2006, according to a new survey. The percentage of employees receiving increases in 2006 ranged from a low of 96.4 percent for exempt, nonmanagement staff to a high of 96.6 percent for the faculty and nonexempt group. Watson Wyatt Data Services, a subsidiary of Watson Wyatt Worldwide, announced the publication of its “2007/2008 Survey Report on College and University Personnel Compensation.” (www.watsonwyatt.com)
**NQDC Popular Choice**

Nonqualified deferred compensation (NQDC) plans (i.e., voluntary deferral plans) continue to be widely used, and a growing number of companies are choosing corporate-owned life insurance (COLI) to informally fund these programs. Approximately 18 percent of the Fortune 1,000 participated in Clark Consulting Inc.’s “Executive Benefits Survey,” which examined data and trends among executive-benefits plans, with an emphasis on NQDC plans and supplemental executive-retirement plans (SERPs)—tools often used by top corporations to attract and retain sought-after executive talent. (www.clarkconsulting.com)

**More Employers to Offer Workers Financial Incentives for Healthy Behavior**

With continuing pressure to control health-care costs, more companies plan to offer financial incentives to reward workers who adopt healthy lifestyles, according to a new survey. Those employers best controlling costs and increasing productivity are integrating a broad array of health-management programs, reports Watson Wyatt and the National Business Group on Health, a nonprofit association of 285 large employers. (www.watsonwyatt.com or www.businessgrouphealth.org)

**Overwhelmingly Positive Employee Endorsement of Automatic Enrollment in 401(k) Plans**

A new study of employer-sponsored retirement plans shows that employees are nearly unanimous in their support of being automatically enrolled in their companies’ 401(k) plans. The study was conducted by Harris Interactive on behalf of Retirement Made Simpler (RMS), a coalition formed by AARP, the Financial Industry Regulatory Authority (FINRA) and the Retirement Security Project (RSP) to improve the way Americans save for retirement. The Retirement Made Simpler study found that 98 percent of U.S. adults enrolled in an automatic 401(k) plan agree they are glad their companies offer this savings vehicle, with 79 percent of them expressing strong agreement. (www.RetirementMadeSimpler.org)

**Most Firms Know Their ‘HiPos’**

If you want to be groomed for a leadership position, then it pays to be viewed as a “high-potential” employee, or “HiPo,” for short, according to a recent study. The Institute for Corporate Productivity (i4cp) study found 69 percent of the 469 responding organizations have a high potential assessment process in place, and most of those organizations (70 percent) said that a development plan is part of that process. (www.i4cp.com)

**Strong Link Between CEO Realizable Pay, Performance**

Executives at high-performing companies are realizing greater compensation than their counterparts at underperforming companies, suggesting that corporate America’s executive pay-for-performance model is working, according to a new study. Separately, the Watson Wyatt Worldwide study also found that a growing number of workers are forfeiting “in-the-money” stock options and companies continue to pull back on broad-based stock options. Watson Wyatt’s annual report on executive compensation found that CEOs at high-performing companies earned significantly more “realizable” pay between 2004 and 2006, especially from long-term incentive (LTI) awards. (www.watsonwyatt.com/execpay)

**Financial Services Industry Salaries in Ireland Set to Rise by 5.5 Percent in 2008**

On average, salary increases in the Irish financial-services sector are forecast to rise to 5.5 percent in 2008 across all levels, almost 1 percent higher than the general industry sector, according to a consultant’s guide. The fund-management industry is still experiencing some of the highest salary increases in the financial-services sector, according to Mercer’s “Financial Services Remuneration Guide.” (www.mercer.com)
**GAO Report: Many Workers Will Reach Retirement Age Without Sufficient Savings**

Twenty-seven percent of workers born in 1990 will reach retirement age in the 2050s with no savings in a 401(k)-style account, according to a Government Accountability Office (GAO) report. “Private Pensions: Low Defined Contribution Plan Savings May Pose Challenges to Retirement Security, Especially for Many Low-Income Workers” addresses the following issues: (1) What percentage of workers participate in defined contribution (DC) plans, and how much have they saved in them? (2) How much are workers likely to have saved in DC plans during their careers and to what degree do key individual decisions and plan features affect plan saving? (3) What options have been recently proposed to increase DC plan coverage, participation and savings? Among workers nearing retirement—those aged 55 to 64—with a current or former 401(k)-style plan, the median account balance in 2004 was $50,000, which would replace only about 9 percent of income on average for this group. (www.gao.gov/new.items/d088.pdf)

**Men Need Balance Too**

Men are playing a larger role in out-of-work responsibilities and, therefore, feel the pressure of balancing work and family demands. Due to the competing pressures from work and home, men are becoming more aware of their organizations’ efforts to allow for the fulfillment of work-life balance. Research conducted by the Kenexa Research Institute (KRI), a division of Kenexa, a provider of talent acquisition and retention solutions, evaluated male workers’ opinions of work-life balance. The report is based on the analysis of data drawn from a representative sample of 10,000 U.S. workers who were surveyed through WorkTrends, KRI’s 2007 annual survey of worker opinions. (www.kenexa.com)

**Hong Kong Cheaper for Expatriates**

A weakened U.S. dollar means that living costs for expatriates in Hong Kong have fallen in the last six months relative to other locations worldwide, according to a survey. The “Cost of Living Survey” was conducted by ECA International, a knowledge and solutions provider for International HR professionals. Hong Kong retains its position as the fifth most costly city in Asia out of the 41 Asian locations included in the survey. However, below-average inflation and a weakened dollar means those other locations in the region, notably Beijing, Shanghai and Singapore, are catching up. Globally, Hong Kong is the 81st most expensive location worldwide, down from 80th six months previously. (www.eca-international.com)

**Telecommuting Positive for Employees, Employers**

Flexible work arrangements give workers more control over their environment, helping performance and overall job satisfaction. The findings, based on a meta-analysis of 46 studies of telecommuting involving 12,833 employees, were reported in the *Journal of Applied Psychology*, published by the American Psychological Association (APA). “Our results show that telecommuting has an overall beneficial effect because the arrangement provides employees with more control over how they do their work,” said lead author Ravi S. Gajendran. “Autonomy is a major factor in worker satisfaction, and this rings true in our analysis. We found that telecommuters reported more job satisfaction, less stress, improved work-family balance and higher performance ratings by supervisors.” (www.apa.org/journals/releases/apl9261524.pdf)

**CEOs Have Financial Interest in Common with Shareholders**

While CEOs have frequently come under fire for not acting in the interest of shareholders, a 2007 study of top executive compensation finds that CEOs of the largest companies have a substantial amount of “skin in the game.” The findings are a part of a larger study that The Conference Board will release early this year. (www.conference-board.org)
Companies Need to Focus Recruiting Efforts on Retention

While the United States is still experiencing low unemployment rates and a shortage of top talent, it is imperative that companies focus on quality of hires and finding long-term talent, as opposed to just filling open seats, an expert said. Bernard Hodes Group, a provider of integrated talent solutions, announced the results of its Hodes “2007 Workplace Study—Playing for Keeps/Recruiting for Retention.” The survey was conducted among both full- and part-time employees, and focuses on drivers for retention and how companies should focus recruiting efforts on retaining top talent. (www.hodes.com/publications/retentionstudy.asp)

Employees With Right Work-Life Balance More Engaged

Employees who experience a reasonable balance between their personal and professional lives have positive views about their jobs in several other key areas, including pride in their companies, willingness to recommend their employers to others and their engagement in their jobs, according to research. Sirota Survey Intelligence surveyed more than 300,000 employees to find these results. (www.sirota.com)

Executives: Baby Boomer Retirements Most Significant Workforce Trend in Next 10 Years

There are likely to be a number of issues shaping the future of the workforce, but for today’s companies, one stands out above the rest: Nearly 47 percent of senior executives surveyed said Baby Boomer retirements will have the greatest impact on the workforce over the next decade. The survey was developed by Robert Half International, a staffing-services firm specializing in accounting and finance. Executives were asked, “Which of the following trends do you think will most significantly alter the workforce in the next decade?” Their responses: Baby Boomer retirements—47 percent; global business interactions—31 percent; outsourcing—11 percent; remote work arrangements—5 percent; other—5 percent; don’t know—1 percent. (www.rhi.com)

Long Working Hours Up in U.K.

Long working hours are on the increase in the United Kingdom, reversing the slow but steady 10-year decline in people working more than 48 hours a week, according to a new study. More than one in eight of the workforce now work more than 48 hours each week, with as many as one in six in London putting in 48 hours plus a week, reports the Trades Union Congress (TUC). (www.tuc.org.uk)

New Zealand’s Labor-Market Squeeze Goes from Bad to Worse

New Zealand employers are battling record-high levels of staff turnover and offering generous pay increases of up to 5.6 percent to their existing workforce to no avail, according to a survey. Mercer’s latest New Zealand remuneration review shows that organizations have been spending up to keep top talent in their existing workforce, with the median increase in fixed packages at 5.2 percent. (www.mercer.co.nz)

Finding, Retaining Top Talent Critical Challenge

The most critical challenge facing U.S. chief executives and their organizations is finding and retaining the best talent, particularly in top leadership positions. According to research conducted with 526 C-Suite executives by the Society for Human Resource Management (SHRM) Foundation, three out of four said that “succession planning” was their most significant challenge for the future. Additionally, approximately seven out of 10 respondents said the next most pressing problems were “providing leaders with the skills they need to be successful” (71 percent) and “recruiting and selecting talented employees” (69 percent). These survey findings also corresponded to the results of in-depth interviews that were conducted with 36 additional top executives. (www.shrm.org/foundation)
Facts & Figures
Statistics from this issue of WorldatWork Journal

1990s
By the early 1990s, SBP was one of the hottest pay innovations in the United States (PAGE 8).

Extensive
Extensive updating and redesign occurs in many of these SBP plans (PAGE 14).

1960s
Modern SBP systems originated with Procter & Gamble in the 1960s (PAGE 7).

50%
In a study of nine SBP plans, management was reduced by as much as 50 percent (PAGE 23).

50 Days Off
Sweden gives 50 days off during pregnancy, paid at 80 percent of earnings (PAGE 37).

$160.1 billion
Canada’s health-care spending was expected to reach $160.1 billion in 2007 (PAGE 71).

90%
Corporate culture is as important as business strategy for company success, according to 90 percent of 1.200 international executives (PAGE 55).

44%
This emphasis appears justified because one survey found that only 44 percent of American workers believe that their employer has a widely understood and embraced corporate culture (PAGE 55).

30%
In an adhocracy culture, one researcher recommends that a combination of financial bonuses of approximately 30 percent and personal recognition of 70 percent is the optimal balance (PAGE 63).

41%
A survey of 37,000 employers worldwide and 2,400 in the United States by the temporary staffing organization Manpower Inc. indicates that 41 percent of U.S. employers said they had difficulty filling jobs in 2007 (PAGE 28).

25%
Singapore offers a 25-percent subsidy of full-time child-care costs to employed parents (PAGE 38).

35 Hours
The standard workweek in France (PAGE 37).

More than 7 of 10
More than 70 percent of the HR executives interviewed believed they had achieved a solid strategic partnership with sales (PAGE 29).

Five times more
Five times more sales executives than HR executives rated human resources in their companies as essentially a basic support function (PAGE 29).

Calculating bonuses
For accountants and auditors, calculating SSP bonus distributions each period need not be more complicated than for conventional payout methodologies (PAGE 51).

About one-half
Retirement savings can be a source of contention between couples as they approach their golden years, but according to a new study, men and women respond similarly when asked whether they and their partners are on the same page about saving for retirement. According to a new poll conducted by Harris Interactive for The Wall Street Journal Online, about one-half (49 percent of men and 47 percent of women) said they are in agreement with their spouse or partner about retirement savings (PAGE 70).

79%
In a national survey of chief financial officers and senior comptrollers, 79 percent believe the roles of chief executive officer and chairman should be held by different people (PAGE 71).

One-quarter
Only one-quarter of large organizations are making any effort to transfer knowledge from retiring Baby Boomers to other employees (PAGE 71).