



TOTAL REWARDS CHANGE IN GLOBAL COMPANIES UNDER COVID-19 AND BEYOND

(BASED ON A PRESENTATION BY ZEREON ASSOCIATES TO THE SHELL COMPANY GLOBAL HR / REWARDS TEAM, NOVEMBER 2020)

SPEAKER



Zereon Associates

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Previously, he held executive-level positions in Global and Regional HR, Compensation and Benefits, Org Design and Mobility at Indra, SR Technics, Ball Corp, Ecolab, Altadis-Imperial Tobacco, Mercer and Arthur Andersen (EMEA, Americas and APAC up to 35 countries).

With 2 international EMBA's (ESADE-Babson and ESCP-Paris) and Digital Transformation, Venture Capital and Agile diplomas (MIT, Berkeley, EXIN), MA Business (ICADE), he is a frequent speaker, author and member of different HR, Reward and MBA alumni associations.





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I. THE CONTEXT: CURRENT FORCES AFFECTING BUSINESSES (1)



US-China Presidents' decision-making and elections, Brexit, geopolitical challenges

Demographic evolution, "baby boomer" retirement, GenX, Millennial and Gen Z interests

Disruption of industries, new competitors and entrants from anywhere, apps and platforms changing whole industries



Corporate Governance, importance of Board affairs & Stakeholder protection, ESG considerations, sustainability

Investor, Shareholder / Proxy Advisors' Activism, new investor groups, Private Equity transactions, M&As/JV/Alliances

Low or negative interest rates, very low oil prices, threats of deflation

Regulatory complexity in general (international, local, industry-specific)



Globalisation vs. localisation tensions, immigration, intercultural aspects and communication

War for Talent in International Markets, specially for key professionals / STEM

Questioning of the classic forms of Performance Management



New organizational and leadership models, flatter / more 'liquid' structures

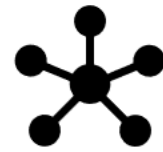
Changes in all labour markets, new social values and ways to work, Agile teams, Equal Pay

Restructurings/ reorganisations, concern about labor costs

Tax and legal sophistication of Remuneration across jurisdictions



I. THE CONTEXT: CURRENT FORCES AFFECTING BUSINESSES (2)



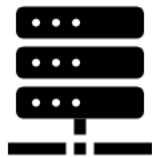
The Covid 19 world



- **IMMEDIATE WORK IMPLICATIONS:** employee safety; workplace & telecom infrastructure redesign; virtual teams' organization, operation and leadership; return to work itself
- **CUSTOMERS:** deep change in “shopping baskets” worldwide and in consumer /B2B behavior; massive events forbidden; much more online buying
- **SUPPLY CHAINS:** disrupted overall; long haul transportation affected; decentralization of factories & logistics; local sourcing
- **SHORT AND MID-TERM:** most industries seriously affected; 2020 financial and business objectives changed / not achievable; Reward packages changed or reduced; reflections upon future company shape and new workflows; business reconstruction plans ongoing; asymmetric 2021 recovery expected



BUSINESS WORLD DIGITISATION / AUTOMATION
(and related work and people management transformations)



AI/ML/
DL/NLP

Cloud

Social
Media

Blockchain
/ DLT

IoT

5G

AR / VR

...



1010
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- ✓ 43% of companies will reduce workforce by 2025; 34% will expand workforce; 41% will increase use of specialized contractors.
- ✓ Still, 97 million “new” jobs will be created, vs. 85 million “old” jobs that will be displaced.
- ✓ Skills gaps will continue to be high, as in-demand skills across jobs change in the next five years: critical thinking and analysis, problem-solving, etc.

Source: “The Future of Jobs Report 2020”, World Economic Forum, Oct. 2020.

II. FORCES' OVERALL IMPACT BY INDUSTRY AND GEOGRAPHY



Flying / taking off

- **Industries:** Advanced Tech & Ecosystems, Pharma & Healthcare, Wealth Management, Online Entertainment & Shopping, Proximity Shopping & Grocery Retail, Short Range Logistics, Renewable Power Generation
- **Countries:** China, US, Oceania



Holding up / Regaining ground

- **Industries:** Financial Services in general, Telecom, Construction, Food & Beverage, Commodity Trading, Extractive & Agribusiness
- **Countries:** APAC, Middle East, Africa, Eastern Europe



Deeply affected

- **Industries:** Automotive, Manufacturing, Oil and Gas, Live Entertainment, Sports, Personal Travel, Hospitality, Specialized / Luxury Retail, Long Range Logistics, Professional Services
- **Countries:** Western Europe, Latam

Sources: condensed from "COVID-19 sector heatmaps" (Deloitte), "COVID-19 and the great reset: Briefing note #30, November 4, 2020" (McKinsey), "COVID-19: The industry impact of Coronavirus" (Accenture) and others.

III. WHAT ARE COMPANIES DOING REGARDING REWARDS AND RESHAPING ?



... Depends on Company / Industry Status:



Flying / taking off



Holding / Regaining ground



Deeply affected

A "mixed bag": Approach depends on specific company C-Suite perspective / "belief" in Digital Transformation and the Future of Work

Approach 3

Truly preparing for the Future of Work

- ❖ **New Total Rewards approach to attract, retain and engage the Future Workforce**; create a strong, comprehensive and systematic Executive and **Employee Value Proposition**; **enhance Analytics**; selectively optimize operations and labour costs where needed.
- ❖ Create a truly **new Reward Strategy across countries /divisions / departments / collectives** – and implement it effectively; deploy new, upgraded **tools and resources** to manage Reward.
- ❖ **Cornerstones**: Digital Transformation; Open Innovation & Agile Work; Diversity & Inclusion; ESG objectives; Corporate Governance; Equal Pay.

Approach 2

Approach 1 + organizational improvements

- ❖ Reinvest part of Labor Cost savings in internal reskilling + selective external talent acquisition and M&A – specially Tech and STEM profiles.
- ❖ Reward more flexible processes, teams, departments, internal entrepreneurship initiatives and external alliances.
- ❖ Improve certain aspects of the existing Reward packages in countries / divisions: *job/role grading, benchmarks, certain people / team salary and bonus misalignments (up or down), long term incentives, benefits, international mobility reward.*

Approach 1

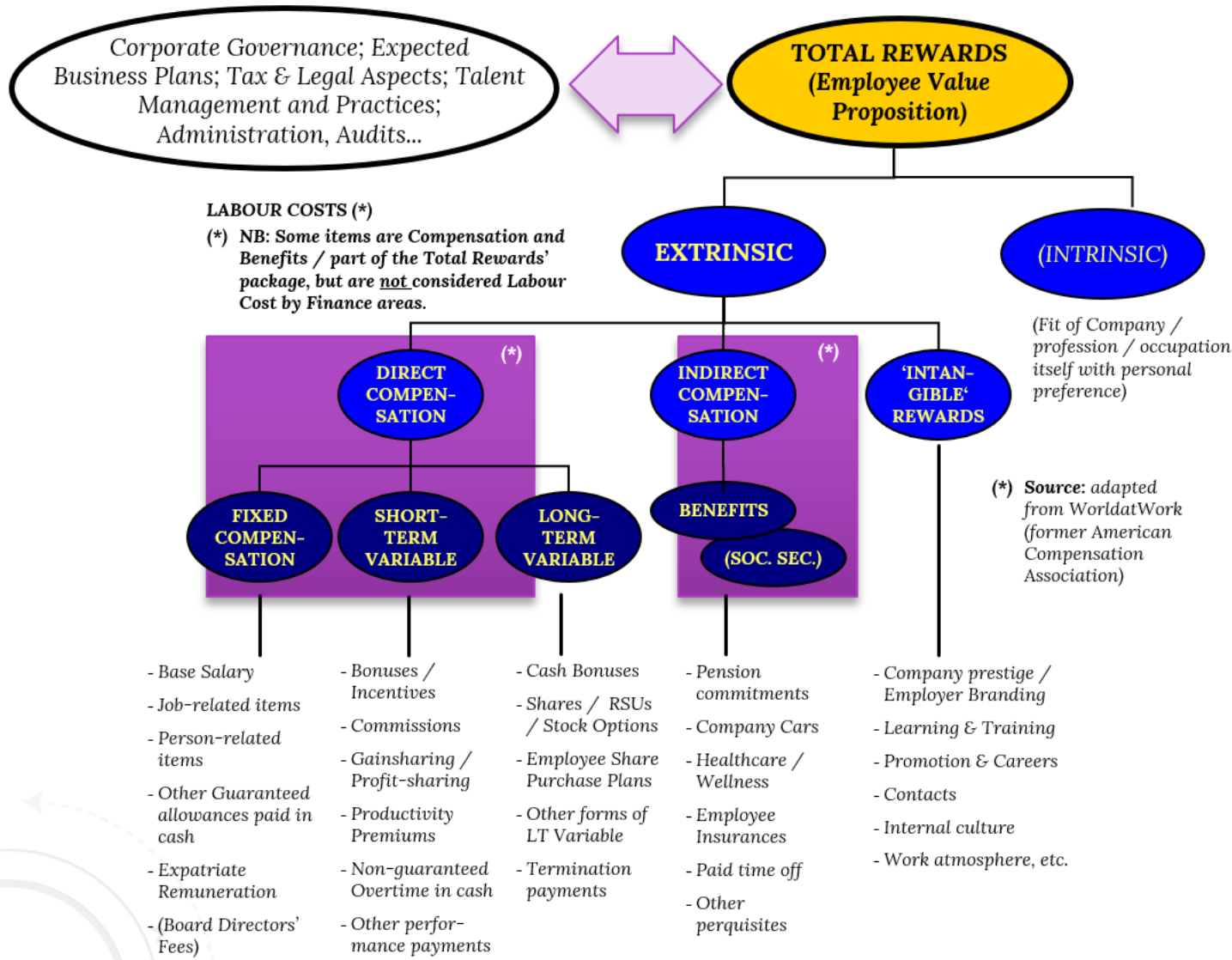
* Simply reducing costs

- ❖ Cut down Reward package elements and external expenses, maybe offering some special awards to key people.
- ❖ Recalculate Workforce and Labour Cost figures.
- ❖ Redesign the divisions / organigrams / departments.
- ❖ Agree with Finance on Labour Cost savings.
- ❖ Support the implementation – people furloughs and exits, facility spin-off / closure, change management and negotiations.

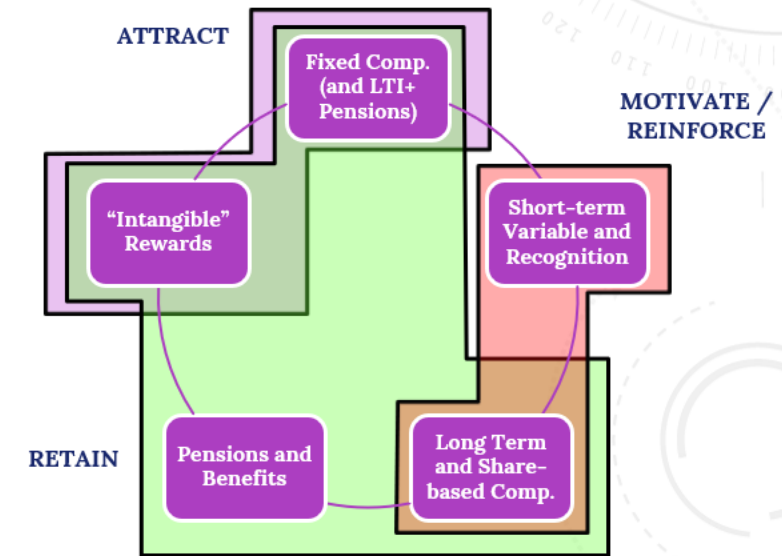
Source: self elaboration, based on actual client work data and testimonials in multiple countries.



IV. BACK TO BASICS: THE TOTAL REWARDS MODEL



- ✓ Rewards (Direct or Indirect Compensation, or "Intangible") cannot be conceived as a mere set of isolated or disjointed elements – **conscious design of the respective Pay Mixes is essential across countries and divisions in the new organization.**
- ✓ At the same time, each element of has a **differentiated impact** on Attraction / Retention / Motivation (ie together, on Engagement):

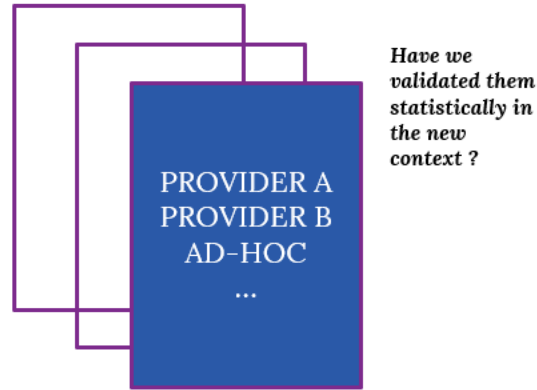


- ✓ Still, **empirical checks of the different Value Propositions** are needed, globally and locally, by 1) internal perception of Executives / Managers / Employees, and 2) external markets' comparison.

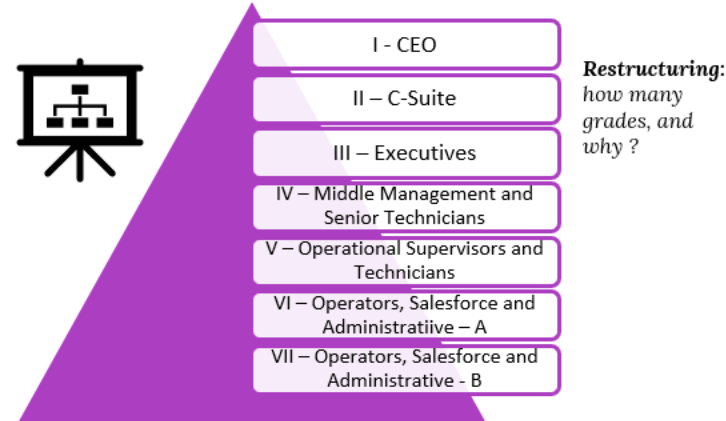
V. WHAT TO MODIFY / LOOK AT - REWARD ELEMENTS AND CONTENT



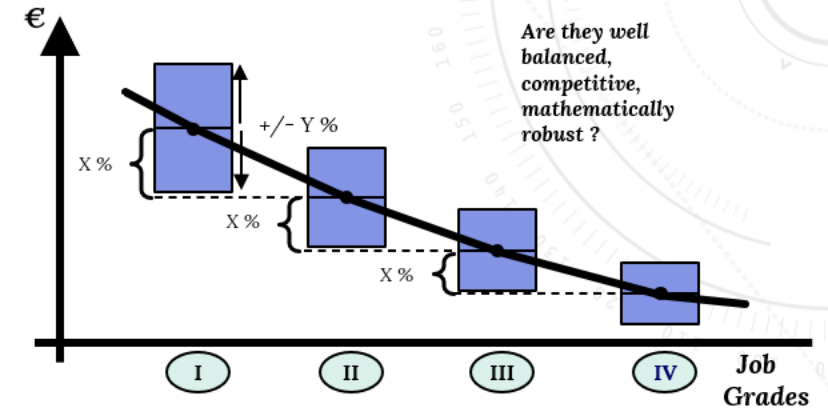
Market Data sources



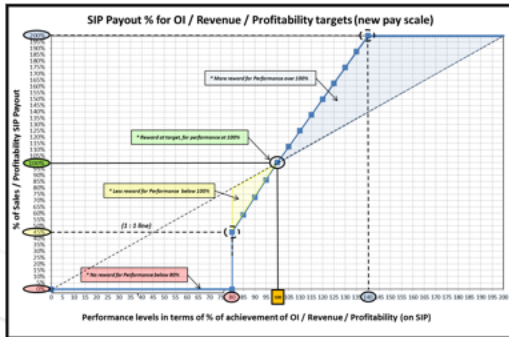
Job Grades / Org Design



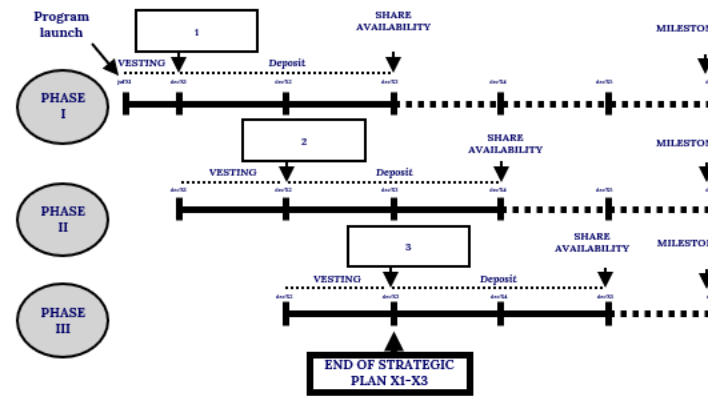
Salary Structures & Reviews



Performance Management systems and/or Short-term Incentive design



Long-term Incentive design



Pensions, Benefits, Mobility & Special collectives' Rewards



+ Labor Cost calculations (with Finance) - by Country, Division, Organizational Level, Cost Center, etc.



V. WHAT TO MODIFY / LOOK AT - GENERAL INTERNATIONAL REWARD CONFIGURATION

Hypothetical example – a mid-sized, divisionalised, international, Swiss Power Generation company:

Organizational Level	Geographical Area (Countries)	Company Divisions			
		Nacelles and Windmill Blades Production Division	Solar Panels Production Division	Commercial Division	Global / Regional Support Areas
Board and Executives	All	Reward System "0" (RS 0)			
Middle Management Qualified Individual Contributors / Technicians	Switzerland (Global HQ)	RS 1			
	Italy	RS 2		RS 3	(n/a)
	Germany and Austria	RS 4	(n/a)	RS 5	(n/a)
	Czech Republic (East Europe HQ) and Poland	RS 6	(n/a)	RS 6	
	Russia	(n/a)		RS 7	(n/a)
Peru (Latam HQ), Bolivia, Ecuador	(n/a)	RS 8			
Rest of Employees	(Large countries)	Collective Bargaining (if existing), or else local Reward system at Market Median (Centile 75 for local Top Management)			
	(Small countries)	Collective Bargaining (if existing), or else local Market conditions at Market Median			

- ❖ **How many and which Reward systems?**
(in this example, 8+1)
- ❖ **Why this set-up ?**
(ie commercial and production synergies, local business positioning, nature of operations, local reward markets, tax/legal/cultural constraints, historical reasons...).
- ❖ **Are other Reward systems necessary ?**
Eg: Expats, Engineers, special collectives, Boomers / Gen X/ Millennials, emergent countries...
- ❖ **Is this what we need ?
What should we change ?**



V. WHAT TO MODIFY / LOOK AT - CONTENT OF CHANGE GUIDELINES (EXAMPLE)

Hypothetical example (cont.) – Current and new configuration for Eastern Europe (RS 6 - 3 Divisions)

	Fixed Remuneration	Short Term Variable	Benefits	Long-Term Variable	
Today	<ul style="list-style-type: none"> - Outdated local Job Grading - Informal Reward benchmarks. - Very competitive vs. both General and Sectorial Markets. - Not clearly aligned to actual levels of responsibility, performance, or employee experience levels. - Manually managed / with Excel. 	<ul style="list-style-type: none"> - Mostly discretionary, with target % not tied to organizational level. - Eligibility/participation depends on person and "historical" factors. - Generally market-aligned amounts; above market for management. - Large dispersion among individuals. 	<ul style="list-style-type: none"> - Heterogeneous elements (Health / Life / Accident; sporadic Pension Plans). - Not aligned with market. - Inconsistent eligibility. 	<ul style="list-style-type: none"> - Generic corporate plan of 'Stock Options' – not well understood locally. - Plan not linked to the organizational level of the person and the financial performance of the countries. 	<ul style="list-style-type: none"> ✓ Quantify ✓ Define in detail (Salary ranges, Variable Target %, LTI structure and amounts, etc.) ✓ Validate statistically ✓ Define schemes' Governance ✓ Create plan steps to implement, manage change, and treat misaligned cases ✓ Get approval
In two years	<ul style="list-style-type: none"> - Internally fair and with a modern, pan-European grading. - Very competitive against local Sectorial Market for key positions (Q3); at market for others (Q2) - Use of two robust Market Surveys. - Well-balanced Salary ranges linked to the real value of the jobs. - Salary range position linked to experience and performance. - Salary admin will be automated for management positions. 	<ul style="list-style-type: none"> - Incentive linked to 1) planned divisional, team and individual results and 2) compliance with company values. - Target % defined by the level of the position, to be applied to all employees outside Collective Bargaining agreements. - High upsides / downsides for excellent / poor performers. - Position Q3 for local key positions, Q2 for the rest. 	<ul style="list-style-type: none"> - "At Market" Elements – Business Car if applicable, Health Insurance / Life / Accident and Pension Plan. - Granted according to the relative value of the position – except in countries where it is not common. 	<ul style="list-style-type: none"> - Continuity of the SO Program with performance measures and smaller grants. - Exception for Eastern Europe: specific 3-year cash incentive, linked to selected business plan objectives. - Granted to a restricted collective, key to the Business. 	

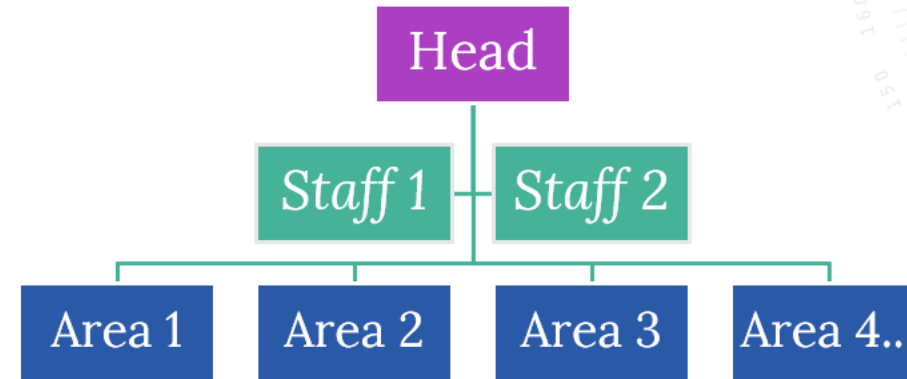


V. WHAT TO MODIFY / LOOK AT - REWARD ADMINISTRATION, WHERE ELSE WE CAN HELP

Reward Admin:



Where else we can help - Organizational Design itself (via knowledge of Job Grading / Architecture, FTEs and Labor Costs)

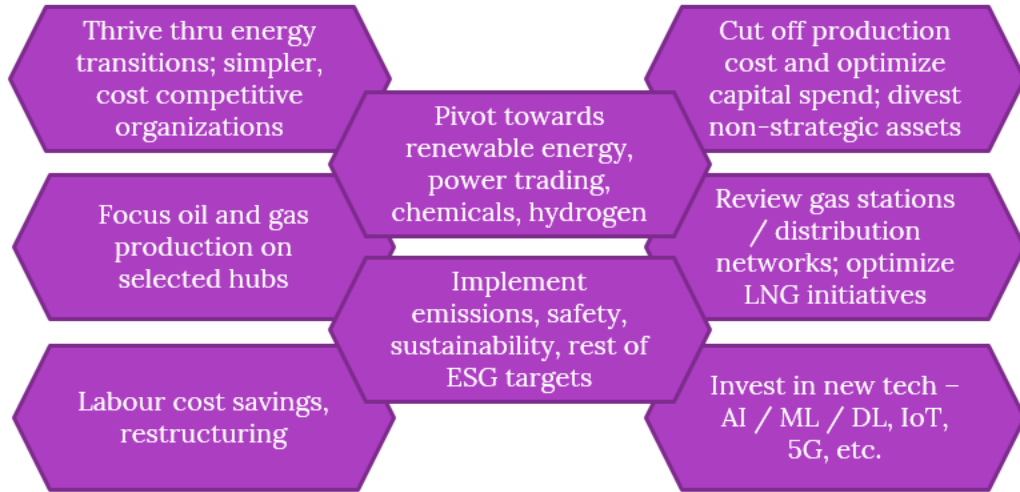


- ✓ Organization redefinition 1st 2nd 3rd 4th levels – By Product, By Internal / External Client Type, By Value Chain Step, By Geography, By Functional area, etc. – evaluate and discuss choices with the business.
- ✓ Hierarchical vs. Functional vs. Matrixed / N-dimensional reporting lines.
- ✓ Consideration of Business vs. Support areas' location (physical and organizational), of areas with and without P/L, of Legal Entities with or without actual operations; of transfer pricing.
- ✓ Treatment of Excellence and Shared Service centers, Internal / External Client-facing areas.
- ✓ Spans of control (horizontal), organigram “altitude” (vertical).
- ✓ Management of horizontal processes / projects, ad hoc teams, outsourced employees.
- ✓ Org redesign principles and caution items from the Reward / HR perspective, specific reward markets, cultural, statutory and legal constraints.



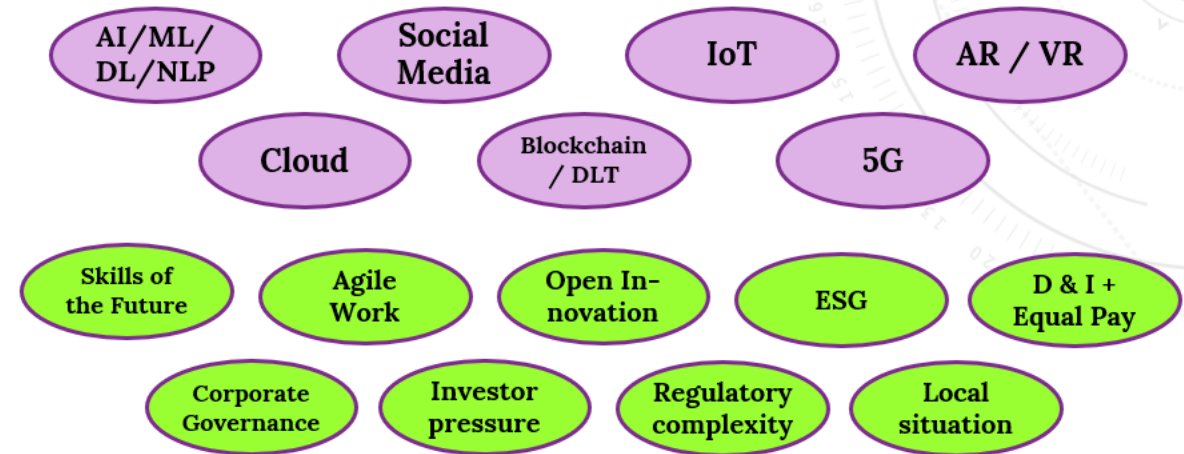
VI. CONCLUSION: REWARDS AND THE FUTURE OF WORK

Oil and Gas Industry / Strategic Objectives



(Sources: Business Insider, Sept. 2020; FT, Oct. 2020; Fuelsandlubes.com, Nov. 2020).

External Forces impacting the business



Set up the Project from the Rewards' side: What, why, by whom, by when, with what resources + Approve + Launch + Implement and Manage Change + Follow up + Measure results.

“Human ingenuity is at the root of all shared prosperity. As the frontier between the work tasks performed by humans and those performed by machines and algorithms shifts, we have a short window of opportunity to ensure that these transformations lead to a new age of good work, good jobs and improved quality of life for all.”

(World Economic Forum, 2020)



THANK YOU !



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