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Effective Remuneration Strategy in a Group Structure

The question of what remuneration strategy to adopt in a group structure is one that continues to pose a challenge to many companies (multinationals and locals). Should employees be paid the same across operating companies (OpCos) or should they be paid according to their respective talent markets? How does the choice of pay strategy impact ability to transfer talent among OpCos? What should be the key factors and drivers of a group's rewards strategy? This publication covers group arrangements where there is a holding company (HoldCo) and common control / ownership and attempts to address the issues from a broad perspective, covering both local and multinational companies as much as possible. The publication is in line with KPMG's commitment to supporting organisations to take informed decisions on leveraging a sustainable and effective remuneration strategy to drive corporate objectives.

Organisations typically evolve into a Group Structure for many reasons such as: consolidation of ownership in different companies; backward and/or forward integration; diversification; growth and expansion; specialization and competitive advantage, etc. As with the group structure/strategy, the business must continuously review the question of what is the optimal and sustainable remuneration strategy to support creating value for all stakeholders.

Adopting a strategic approach to group remuneration is at the heart of driving alignment, relevance and sustainability across the constituent OpCos, as well as promoting a high performance culture.

Part of the strategic considerations in determining an effective group remuneration framework is alignment with group strategic objectives and aspirations. In other words, the remuneration framework should reflect Group plans and what the OpCos are evolving to become.

A number of businesses now realize that applying the same-pay approach does not necessarily yield the best results in the long run. Because the dynamics of each OpCo's business, market, location, staff requirements, regulation, laws, etc. may vary, in-country and across international boundaries, adopting same pay across a Group may not be the right thing to do.

While adopting same-pay approach can promote group spirit, the extent of actualising this ideal depends on how well the OpCos perform over time. Moreover, employees in better performing businesses may think they deserve more than others, on the basis of their contribution to the bottom line. In addition, businesses should remunerate according to the results that employees have control over and are responsible for driving.

Similarly, adopting same pay across OpCos may unduly expose the Group to avoidable costs, by ignorantly importing certain pay policies / practices (such as gratuity) that are mandatory for one or two OpCos and applying same across the Group, in a bid to promote uniformity. From experience, for local companies, the need for seamless talent transfer across the Group is one of the reasons why some businesses adopt the same pay for all OpCos.

However, this should not be so. While the same grading system may apply across the Group, pay, on the other hand, does not have to be the same across board. Temporary transfers should be treated like secondments, with an additional allowance provided on need basis, for example, to encourage the moving staff or compensate for inconveniences such as relocation allowance. The secondee's pay will, however, continue to be determined according to the structure of the original employer (the headquarters, HoldCo or another OpCo). For permanent transfers/localization, there is no issue, if the employee is moving to a host company or country where pay is higher. In the case of the reverse, the approach to adopt will depend on whether the transfer is at the instance of the employee or the employer. Where the latter applies, then the employee must not be worse off. The employee's current pay should be maintained but consciously managed over time towards narrowing any gaps from peers on same level. Some communication will be required to manage the staff and his/her peers, to avoid excessive focus on perceived inequity that can undermine collaboration and productivity. In the case of movement at the staff's instance, the pay implications, amongst others, should be extensively discussed to ensure that the staff understands the full ramifications of the decision. For international companies, a robust international assignment policy should be put in place to address all related issues.

Materially different living conditions in regions / locations of operation might require a location-differential in pay such as housing / hazard / inconvenience allowance. In the KPMG 2015/16 HR & Reward Practices Survey, "Pay differentiation based on location is not common" in Nigeria. Only 28% of the 121 survey participants say they practise differentiation based on location within the country. Across international borders, cost of living adjustment, assignment and hazard / hardship allowances are some of the ways that similar differences in living conditions are mitigated.

In terms of pay philosophy, most leading group / global companies adopt the same philosophy across businesses and locations. Ability to deliver / actualise the philosophy, however, depends on business fundamentals and the environment. While the market anchor point can be the same Group-wide, the make-up of each OpCo's peer group should not necessarily be the same. According to the Society for Human Resource Management (SHRM) "…global compensation and benefits philosophy should be standardized in principle … and then localized in implementation" (Global Compensation & Benefits, SHRM).

Whatever Group Remuneration Strategy is adopted, communication and employee buy-in is key. No matter how elegant a group pay strategy is, if it is not well-understood and accepted by employees, it can lead to demotivation and undermining of organizational goals and performance. Employees need to understand the reason behind the structure, the need to differentiate, the business' view on performance, what is common and unique, alignment between the philosophy and business objectives, etc.

The table below presents a snapshot of different group structures, location or spread and some common factors to consider in determining an effective group remuneration strategy:

Group Structure	Geographical Spread / Presence	Factors to Consider for an Effective Group Remuneration Strategy	
• Same Business e.g. Banking (2 or more different banks in a group) • Diversified Business (But Same Industry) e.g. Financial Services - Banking, Private Equity, Insurance, Asset Management, etc. • Diversified Business (a Conglomerate e.g. Consumer Goods, Oil & Gas, Agribusiness, Mining, etc.	**Multinational**	**LOCAL / COUNTRY STAFF** • Local country laws, culture, tax, collective bargaining and other market practices • Local talent market, industry peculiarities and pay levels • Economic & other factors: inflation, currency, infrastructure, security, business life cycle, etc. • Adopting global policies, for consistency, as much as possible e.g. Common pay philosophy (same anchor point but not necessarily same pay peer group) • Combination of country and group KPIs for incentives, depending on staff level and line-of-sight **INTERNATIONAL STAFF** • Robust global compensation and international assignment plan	
	Local	**OPERATING COMPANIES** • Respective OpCo's Business and HR Strategies • Relative size, efficiency (profitability) and ability to pay amongst OpCos and market benchmarks • Local and global practice in leading industry benchmarks • Competition for and scarcity of talent • Common pay philosophy (same anchor point but not necessarily same pay peer group for the OpCos)	**HOLDING COMPANY/STAFF** • HoldCo's Business & HR Strategy • Nature of oversight / support provided to OpCos • Affordability and sustainability • Local and global practice in leading HoldCos • Robust secondment and relocation policy to manage talent transfers among OpCos

Overall, the issue of what group remuneration strategy to adopt is hardly a matter of what is convenient or the need to be able to move staff around easily or predicated on promoting group spirit. For an optimal decision, a wide array of factors such as business and HR strategy, affordability, sustainability, talent market realities and laws and regulation should be considered. The optimal strategy is the one that balances the key variables and effectively enhances the group's ability to attract, retain and motivate top talent for superior performance.

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