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Podcast transcript

Digitization and Effective Reward

Podcast with Michael Bussa, National Practice Leader, Global Reward Services, KPMG in the US.

Musical intro

Announcer:

Hello and welcome to the Future of Mobility, the KPMG podcast series for global mobility leaders. In this series we offer short insightful episodes, you can listen to wherever and whenever you enjoy your podcasts. In these podcasts, we look at some of the most pressing issues and opportunities facing Global Mobility Department's in the modern business world.

Through interviews with leaders in global mobility, human resources, tax and other areas of business from KPMG and beyond. In today's episode, we talk to Michael Bussa, National Practice Leader, Global Reward Services, KPMG in the US.

Thanks for taking the time to join me Michael, it's great to be able to speak to you today.

Michael:

Thanks for having me!

Announcer:

As part of KPMG's future of mobility campaign we're exploring three themes: geopolitics, changing business models and, of course, digitization. So I would like to kick off our conversation by discussing what impact you think digitization has on effective reward?

Michael:

Digitization has really become indispensable in recent years, coupled with sound technology approach. Firstly it enables companies to reward employees effectively and we'll come on talk a little bit about some of the key pressures that organizations are facing around talent retention and incentivization and also to meet tax and regulatory compliance requirements.

Announcer:r:

So Michael amid the growing complexity of global mobility, what trends are you seeing impact employees and companies the most?

Michael:

Well, as we all know it's a very challenging environment globally for organizations in terms of looking to attract, retain and incentivize talent. And that gives rise to several challenges for organizations that they can usually overcome through a robust technology and digitization approach.

So the first is, how we look to incentivize and retract talent. Long-term incentive compensation is certainly inherent in that process. Organizations are increasingly relying on it and they're certainly becoming very effective in designing programs to achieve those objectives.

The second is it's the dynamic around the workforce. We have all sorts of types of employees now in the workforce, whether we're talking about the gig economy, business travelers, formal expatriates, long-term transfers, the breadth of what is defined or how we define mobile employees is certainly continuing to expand, and I would probably challenge most organizations to say who really isn't mobile in your organization? So with that, you then look at combining the complexity around long-term compensation which is usually multi-year in nature and you combine that with the mobility aspects and the complexities and that gives rise to tax implications, regulatory implications and payroll implications that organizations need to focus on.

Last and certainly not of least importance, is around the focus on the participant experience. Companies invest a lot of time, effort and energy in looking to deliver effective compensation and we want to make sure that employees have a good experience around this. So what is a good experience really mean?

Firstly, we need to make sure that employees receive their awards on a timely basis and depending upon the jurisdiction and nature of the award that will differ, but we want to make sure that it's delivered in as quick of a time frame as possible.

Secondly, it needs to be delivered accurately, so that means withholding the right amount of tax. Whether that's actual tax, hypothetical tax, we certainly don't want to over withhold and we want to make sure that there's no surprises for the individual, particularly around tax return filing time.

Thirdly, we need to ensure that there's good transparency to what the individual is getting. You know, do they really understand the value of the award? So again, what does that really mean? It could mean a number of different things. Number one, it could mean, do I understand how I'm reconciling from the gross amount of units I was expecting to receive, to the net amount of the after tax and do I truly understand that? And secondly, if we think about it perhaps from a total rewards standpoint, how does this award fit into my overall compensation framework?

Announcer:

So Michael what should businesses be considering when designing and operating global incentive compensation programs?

Michael:

First and foremost they have to ensure that they embrace technology. There is a number of great tools on the market whether we're looking at the fundamental HRIS system, and how we either collect or maintain data and how we also assist organizations in ultimately with the delivery and the tax compliance around these long-term incentive type awards.

The second is to have a very sound repeatable process that is transcended throughout the organization. Many times organizations will design terrific programs that are meant to do whatever they're looking to achieve from an employee standpoint, but sometimes there isn't appropriate thought given to what the operational requirements are, or the tax requirements, or the regulatory requirements. So as you think about the architecture of the design of your process, you need to make sure that you've got a good handle on what all of those factors are and how they impact operations.

Lastly, we need to make sure that we have all stakeholders involved and again, depending upon the size, scale and depth of your incentive program, that can mean a number of different things but fundamentally we would think that you would want to involve executive comp, equity, administration, HR, tax, treasury and accounting just to name a few. And it's also important to note that, it's not just about involving the stakeholders at your headquarters level that are primarily involved or responsible for delivering the awards, it's also looking across your entire geographical footprint. So it's who needs to be involved with payroll at the local level, accounting, tax and so forth there as well.

Announcer:

Michael are you seeing large multinational organizations leveraging technology?

Michael:

Yeah, well we focused on a few areas and let me just recap some here and how technology is being used. With the employee experience again it's about effective communication and effective execution. So we want to make sure that employees really understand what they're getting, that they're getting the information timely and that they can reconcile it or use that information to reconcile what they're delivered and usually what's being delivered to them that of tax.

Second would be around payroll execution. Again, it's probably something that most get kind of tired of hearing about frankly but we have to ensure that we have payroll execution, flawless frankly, so that we can be sure that we're being compliant with all the various requirements in all the jurisdictions you operate in. You know, we started out this conversation, we said that mobility probably includes almost every employee in an organization now. So we're not just talking about taxation in one jurisdiction or in one country. We're talking beyond that, we're talking about states, cities, localities, cantons and so forth and we want to make sure that we have a proper process to guide us through compliance.

Next is around cost awareness. Again, maybe it seems obvious but certainly having an effective process drives efficiency. So you probably have two categories of costs that you're hoping to minimize or that you should be able to minimize through an effective process. One would be the absolute tangible cost, so there is the actual cost of working everything that you need to do through the organization from the time of granting awards, to the time of delivery, to the time of paying in taxes and so forth. The others are there are the softer intangible costs which even though they can't necessarily always be measured, they certainly exist. So it can be the employee noise factor. If there's disruption in the process or employees don't get their rewards on an effective timely basis. There will be noise in the system and somebody will have to deal with that. Similarly if we don't have effective compliance and if taxes aren't remitted and the income isn't reported timely, it will likely result in a tax authority inquiry or certainly tax authority audit which would also result in an embedded cost.

We also have to think about how we continuously, enhance or evolve the process to keep pace with change that's happening with respect to the programs. And then again, that can cover a number of different areas, right? Programs or long-term incentive programs, will need to continuously evolve within an organization. That's driven by the types of talent we're looking for, how we retain them, how we compete. Organizational objectives may change. Business imperatives and so forth and there's typically a need to have alignment in your long-term incentive program to enable employees to achieve that, or to incent them to achieve that. And certainly from a transactional standpoint, you know, let's say it's a pretty active deal market for example so organizational structure may change so that could be mergers, acquisitions, spinoffs, and all of those have impact on long-term incentives. Plans will need to be changed, cashed out, whatever the case may be. But the process and the technology you're using to enable that, will need to evolve along the way to accommodate those changes.

Announcer:

Finally Michael, what advice would you give to our listeners who are looking at leveraging technology in the design of an effective reward program?.

Michael:

Yeah, the first is think holistically and that again for different organizations that means a lot of different things but make sure you've got a handle on all of the terms, conditions and features around your rewards, understand the tax implications, regulatory requirements and the payroll requirements because that will set the foundation for what your process needs to be.

Next, as we mentioned and I really can't say it enough, actively engage all stakeholders. Don't assume that people who were supposed to know certain things about how things are going to be executed in the process, know for sure. You have to make sure that they're actually part of the stakeholder committee to operationalize this.

Next, sustain your progress. Once you decide to go down this path which is usually a very effective path, you have to make sure that you sustain you processes, keep people informed and continuously evolve in response to external changes such as tax and regulatory requirements and some of the other items that we spoke about before that will change your program. If I haven't said enough already, embrace the use of technology. Thinking that you're going to manage this process effectively and drive your key objectives around making sure the program is a success, however you measure that. Having a good employee experience and being compliant and being cost effective just cannot happen on any program with scale without technology.

And lastly and one that I would encourage all organizations to think more about is if you do undertake this type of process you'll accumulate vast amounts of data. And data is valuable. So whether we're talking about the very transactions themselves, the mobility data, the tax implications and so forth. Data can be used effectively to start forward thinking around items such as how effective was our program? Did we actually achieve the retention rate where we wanted to achieve it or do we fall short? How could we look to change that in the future? How would we look to change your plan? Did we achieve corporate objectives? Or are we in line with business plan? So, if we have performance features in our program, did those performance features enable us to facilitate those business objectives? And if not, how do we change that? Data and analytics is extremely powerful to enable us to do this. We don't have to speculate anymore. We don't have to conceptualize. We can measure the past precisely. We can figure out statistically what the items are that drove us to success or why we fell short and then we can use that data going forward to design what we need to do in the future to change it.

Announcer:

Michael, thanks again for joining us. I'm sure our listeners around the world will appreciate you taking the time to talk with me today. Hopefully, they'll be able to use your insights and advice to make an impact on their global mobility initiatives.

Michael:

Great, thanks for having me.

Announcer:

Please let us know what you think of this episode or if you have any ideas for future episodes, please email us at tax@kpmg.com. And remember, you can find our latest publications, articles and other material that address the issues discussed in this ongoing podcast series at kpmg.com/futureofmobility. Thanks for listening.

Musical exit