SCHUSTER-ZINGHEIM
and associates, inc.
E-MAIL sz@schuster-zingheim.com • PHONE 310 471-4865 • WEB SITE www.paypeopleright.com

How You Pay Is What You Get

Patricia K. Zingheim and Jay R. Schuster

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In the lounge of the Shanghai airport, we chanced upon two Midwesterners on their way home. They were closing down a U.S.-China joint-venture manufacturing business that had gone broke. Their assignment had been to globalize their U.S.-based business in Asia, but their Chinese partners never provided the necessary raw materials or local support.

The deal finally collapsed when their Chinese partners secretly refinanced their jointly owned factory and ran off with the money. This was the pair's first expatriate assignment, and they were on their way home with their tails between their legs. They did not understand Chinese business law (or the lack of it). Over gin-and-tonics, they consoled each other: "At least we're on our way back to America—to our *real* jobs."

The large U.S. company that sent them to China picked people who had done well in the Kansas home office, but, as Dorothy famously remarked to Toto, "I have a feeling we're not in Kansas anymore." The smart thing would have been to send people who understood the realities of doing business in China and the vagaries of Chinese corporate law; at the least, the company could have recruited trustworthy and experienced "locals" to help run its business processes. Instead of creating stakeholders in the local enterprise who would do their utmost to make it a success, it rewarded its people for coming home to whatever next assignment the organization had to provide.

Now, take another example: Gillette, a truly international company with a global workforce. When the company entered China, management used experienced third-country nationals (for example, a Singaporean who works in China for a U.S. company) who knew both the principles of doing business for Gillette in a global world *and* how best to do business in China. And their rewards are based on the business they generate in China. While Gillette's recent shareholder performance is open to criticism, this can't be traced to an absence of a skilled workforce throughout the world. This is an enterprise with "global talent" and "global workers."

It might be expedient to get your global business up and running by temporarily transplanting expatriates, but you can't sustain a business in this fashion. Look closely: Are these managers being rewarded for doing well or for coming home? Most often, it's the latter. We believe that global rewards should focus on making the business a success, not just waiting to "come home" again. We remember a comment from a top global executive in a manufacturing company—"I don't want to take many risks over here. My future is in the United States, not in this country. I am just a 'caretaker' over here."

But it's not only about the money. Companies say a global assignment is good training ground for a corporate career, but fewer and fewer managers are buying into this idea. *Business Week* reports that no more than 20 percent of managers in global roles believe that their employers view such career rotation as adding value to the business, or as preparation for promotion. So the way rewards are structured doesn't help the people on whom companies depend for global profitability and growth, and it sure doesn't seem to be viewed as a positive career opportunity by the people themselves.

As a solution to this expatriate pay dilemma, we suggest reserving traditional expatriate compensation for temporary talent injection. Expatriates and third-country nationals can be paid so that their rewards create a situation of limited assimilation into the global enterprise. But increasingly, a large part of the total pay of leaders responsible for global success must come from incentives based on how specific goals are achieved in this "outpost." These are *frontier* assignments for the key managers and technical experts who are in charge of transplanting a company's strategy to a new location.

The IBM global-incentives model, put in place in 1995 by CEO Louis Gerstner, shows how this method can achieve spectacular results. By modifying the rewards strategy for all of its employees with a comprehensive incentive program based on a combination of both overall IBM and local business success, Gerstner changed the culture of IBM from one of entitlement to one based on improving business-unit performance through out the world. We were speaking at a conference on global rewards in Latin America when a Brazilian IBM manager rose to discuss the business case for his company's incentives. "IBM has everyone throughout the world on incentives driven by how effectively overall business goals are translated to wherever you are doing business," he explained. "Having everybody on incentives makes it critical for *all* of us to be successful wherever we are and whatever we are doing. This is especially important in a global assignment—it makes people *own* IBM wherever they may work."

UNDERMINING LOCAL EXCELLENCE

Why couldn't Napoleon's powerful army win in Russia? Why didn't Britain's vast armies hold the Americas? Why did the legions of Rome end up fighting hard just to keep Rome for the Romans? Part of the reason was a severe lack of stakeholdership in the lands they were out to conquer. The minds of the generals and foot soldiers were on getting it over with and getting back home to Rome, where they came from. They were fighting to win in somebody else's back yard, not their own. That makes a big difference.

Here's the *secret sauce* of global business success from an HR perspective: Create a segment of your workforce—we call this segment "global talent"—composed of people who work for extended periods of time outside the home country, and whose next assignment is also likely to be outside the home country. Successful members of a global talent team are often people who are flexible and adaptable and have an ability to learn new languages. They actually *prefer* working overseas, and don't need to be "bribed" with hefty compensation packages, or assurances that this move is important for their further career advancement back in their *home country*. But not everyone is cut out for life abroad. Global talent needs to be developed and cultivated, and unsuitable candidates weeded out and returned home. The strategic advantage in creating this workforce and attendant reward solution is to ensure that the global enterprise has a custom-designed leadership team dedicated to making the in-country business a success, in both the long and short terms. This strategy's long-term goal is to deliver a dedicated workforce whose careers depend on sustained global assignments.

This change requires that rewards emphasize performance in the country where the work is done—the opposite of a reward solution based on where the individual worker comes from. This is what IBM and Gillette do. It is also part of Jack Welch's GE strategy. Where expatriates can still provide temporary talent injections to a global enterprise, global talent works to integrate into the local environment to apply advanced business tactics and develop a team of local workers.

The ultimate objective is to establish a local workforce of high performers who put their hearts and minds into making a success of the business because it is located in their community. They have an enterprising career in their home country and are stakeholders in the fate of their company's business in that country. And while rewards acknowledge competitive local practice, powerful incentives are used where necessary to reward business performance. This solution introduces performance rewards, even where the practice is inconsistent with a country's "culture." This requires some courage, but it is critical to global success.

How is that going to work? Maggi David, head of HR for Buenos Aires-based Perez Companc, maintains that in-country cultural differences are always used as an excuse for inadequate alignment of global pay with business strategy. She believes companies have a duty to overcome this cultural challenge to implement pay strategies with business objectives. We certainly cheer this strategy. In the contest between culture and business alignment, global business priorities must come out on top.

Unfortunately, some companies are choosing to switch to systems that have been used and rejected in the United States. Brazil and Argentina are currently going through a major privatization of state-owned companies in order to create a viable free-enterprise business system. Pay advisers are in the process of selling internally focused "point factor" job-evaluation plans to these new enterprises. You remember these: The more points you get from writing a "creative job description," the more you're paid. The sales pitch claims that these evaluations work in the United States, so why not in Brazil? In reality, the companies are being sold the same arcane plans that company after company has thrown out in the United States.

Why did U.S. companies kick out point-factor plans? Because these antiquated pay solutions create a focus on internal rather than external competition, create untenable bureaucracy and entitlement, and cause managers to ask themselves, "How many points is my job worth?" rather than, "How can I meaningfully add value to our enterprise?"

A successful global staffing-and-reward strategy should provide workers with a local career in their home country and apply global business goals to the local situation. Local nationals are the primary workforce and the work-site leadership, and rewards should combine local practice with an emphasis on performance. It's likely that the future of organizational design—and how rewards are designed—will reflect a migration to the use of some combination of global talent and global workers. The business case is certainly strong enough to make this model a reality.

EUROPE: A LOST PAY CAUSE?

While some minimal pay innovation is going on for U.S. companies in Europe, many companies hoping to do business in the region still rely on antiquated surveys of European reward strategies that have become works of self-fulfilling prophecy.

One technology-based entrepreneurial company ventured aggressively into several major European cities, and the head of HR wanted to retain some "performance culture" reward practices that the company was using in the United States. The main feature was deep incentives based on measures of both financial and strategic value to the business. While the expatriate "enterprise team" worked under these practices, the firm couldn't recruit seasoned managerial and technical talent from other European companies. "That's not how we do it here," they were told, and, besides, "the XYZ consulting firm did a survey of hundreds of companies, and you can't do it that way."

Think about it—what are "surveys" anyway? They reflect prevailing practice, not best practice. If all you had to do is copy what other companies do to be a global success, this would not be a problem. Copying others is seldom a source of advantage—innovation is. Survey results should be only a starting place for doing your own reward creation. The key is matching rewards to your business strategies. Often surveys reflect practices that are not resulting in added value to the business. Instead, they are commonly just a chain letter—moving practices that may not be successful from company to company.

Escaping these obsolete pay practices that are clearly out of step with reasonably contemporary business goals will need the full support of global leaders who believe that the "noise" involved in making change is worth it in terms of business value. Overhauling the total reward system would mean first changing expatriate rewards, utilizing them only to encourage effective enterprise start-up.

CHINA: A CASE IN POINT

Can we learn about enterprise pay practices from China? Let's take a look at how, in a "no-performance culture," pay is changing rapidly as the government continues to refine socialism with Chinese characteristics. This is not being caused by U.S. companies bringing new ideas to the table—it's the Chinese government and a sense of new enterprise that's compelling changes. But global enterprises are well positioned to take advantage of this "home-grown" entrepreneurial change.

Today, people and companies are following the advice of former leader Deng Xiaoping: "To get rich is glorious." The "computer boys" who do contract programming in northwest Beijing—the Chinese equivalent of Silicon Valley—have purchased Mercedes-Benzes and roomy, Western-style apartments. Legend Holdings, a computer company started up by the Chinese Academy of Sciences, made scores of its top managers millionaires with company stock when it went public in 1994. Now it awards stock to managers based on corporate performance.

Pay in Chinese government-owned corporations is also changing as the government cuts back on subsidies. True, government salaries continue to be based on educational level rather than specialty. When the government provides (infrequent) raises, they are truly across the board—everyone employed by the government gets a raise at the same time. But housing, transportation, and educational subsidies are decreasing.

In addition to their salaries, employees at government-owned companies may also earn piece-rate bonuses for the amount of product they produce. The company's profit performance impacts the size of the bonus as well as the amount of health coverage that workers receive. A successful government-owned enterprise, for instance, will reimburse 90 percent of an employee's additional healthcare cost, while an employee at an unsuccessful company might receive only a 65 percent reimbursement. Though it appears brutal from the perspective of people raised in a society that looks on health care as an entitlement, linking health insurance to business-unit performance should not be rejected out of hand.

MOVING ON

The global talent market and strong emphasis on profitable global growth makes it necessary to "gore some oxen" in global rewards. It's going to be difficult to move away from traditional global compensation solutions but, perhaps, not as hard as it was to move away from unaligned total reward practices in the United States—something that the best-performing *Fortune* 500 companies are doing.

The big challenge will be to move to a practice involving *global talent* (an elite corps of leaders who specialize in international business) and *global workers* who are charged with actually running the enterprise in their home countries. The real business case supporting this move is simple: People with some "skin" in the game are more likely to expend the effort needed for organization success. Change to *global talent* and *global workers* will also be stimulated by rapidly changing local business conditions requiring speedy translation of corporate strategy into local practice.

When the original reward solutions were developed, times were vastly different. It used to be acceptable to view global business opportunities with a colonial eye because corporate business success was judged in the United States. But today, profitability is defined in a broader context. So, if we know "we're not in Kansas anymore," then we should let our rewards system show it.

Patricia K. Zingheim and Jay R. Schuster are partners in Schuster-Zingheim and Associates, Inc., a pay and rewards consulting firm in Los Angeles (310-471-4865). They are recipients of WorldatWork's 2006 Keystone Award, the highest honor in the total rewards profession. They are the authors of two books, *Pay People Right!* (Jossey-Bass Publishers) and *The New Pay*. Their Website is www.paypeopleright.com.