LØNFASTSÆTTELSE MED UDGANGSPUNKT I STILLINGSVURDERINGER

DI LØNSYSTEMKONFERENCE

November 2016

MERCER

MERCER CAPABILITIES

TALENT STRATEGY

- Workforce Strategy and Planning
- Talent Assessment and Development
- Performance and Career Management

EXECUTIVE REWARDS

- Board/Management Advisory Services
- Plan Design and Performance Measurement
- Governance and M&A Transaction Support

TALENT MOBILITY

- Mobility Strategy and Policy Benchmarking
- Provision of Expatriate Data
- Mobility Co-Sourcing and Services

WORKFORCE REWARDS

- Total Rewards Strategy and Program Design
- Job Evaluation and Career Frameworks
- Data, Insights and Technology

HR TRANSFORMATION

- HR Service Model and Process Design
- HR Talent Assessment and Development
- HR Technology Optimisation and HCM System Advisory/Deployment

COMMUNICATION

- Employee Communication associated with Health, Wealth and Career programs
- Change Communication associated with HRIS Implementations, Structural Changes and M&A Activity

EVOLUTION OF IPE - OVER 40 YEARS OF USE AND DEVELOPMENT

SKF developed new method of evaluation – System adopted extensively in Scandinavia

Mercer acquired CRG and developed IPE 3.0 as its global standard system – eIPE web tool was released

WIN | Advanced eIPE launched

1970s **1980s & 1990s** **2000** **2005** **2013** **2014**

Business International and CRG acquire the system

– Rename it BI/PERS and extended Worldwide

– Leads to IPE version 1 and 2

Mercer further enhanced IPE to version 3.1

– Refined language and advanced organization sizing

Release 3rd generation etool supporting the IPE methodology

What is Job Evaluation (IPE)?
## REASONS FOR IMPLEMENTING

Factor based point system, illustrating the relative weight of positions compared to other inside and outside of the company.

Supports and enables:

- Organizational structure

- Compensation policy and pay bands/structure

- Benchmarking

- Input for recruitment and retention discussions

- Expatriation packages

- Alignment – internal and external

- Title structure

- Career paths

- Succession planning

REGRESSED DATA VS POSITION CLASS (IPE)

ANNUAL BASE SALARY
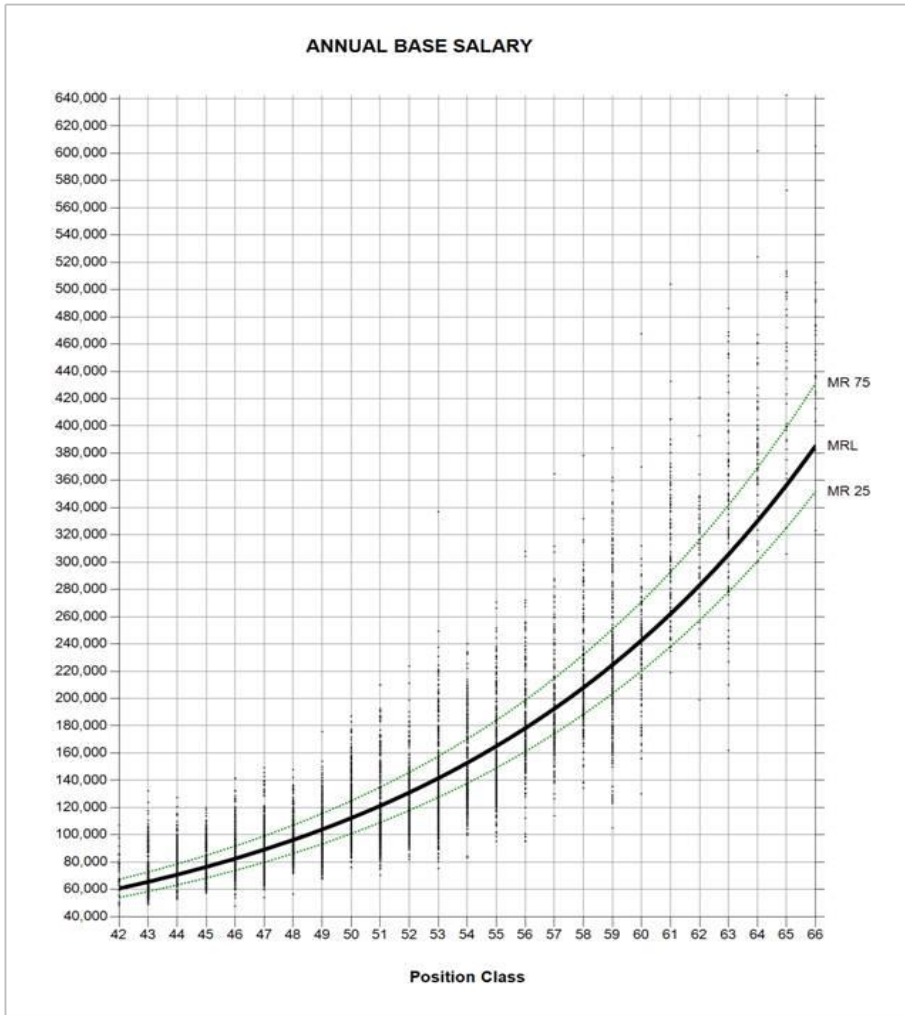
Position Class	Actual	Regressed
40	53,437	56,118
41	57,300	59,891
42	67,620	63,917
43	73,138	68,215
44	72,716	72,801
45	77,687	77,696
46	84,237	82,919
47	88,858	88,494
48	95,780	94,444
49	97,500	100,793
50	106,954	107,570
51	110,500	114,802
52	121,056	122,521
53	127,203	130,758
54	134,500	139,549
55	145,860	148,931

Focus on the job, not the person.

The best way is interviewing manager above.

THE BUSINESS LANGUAGE OF JOBS: APPLYING IPE METHODOLOGY

✓Define your business

Product or service; how value is created

✓Size your organization

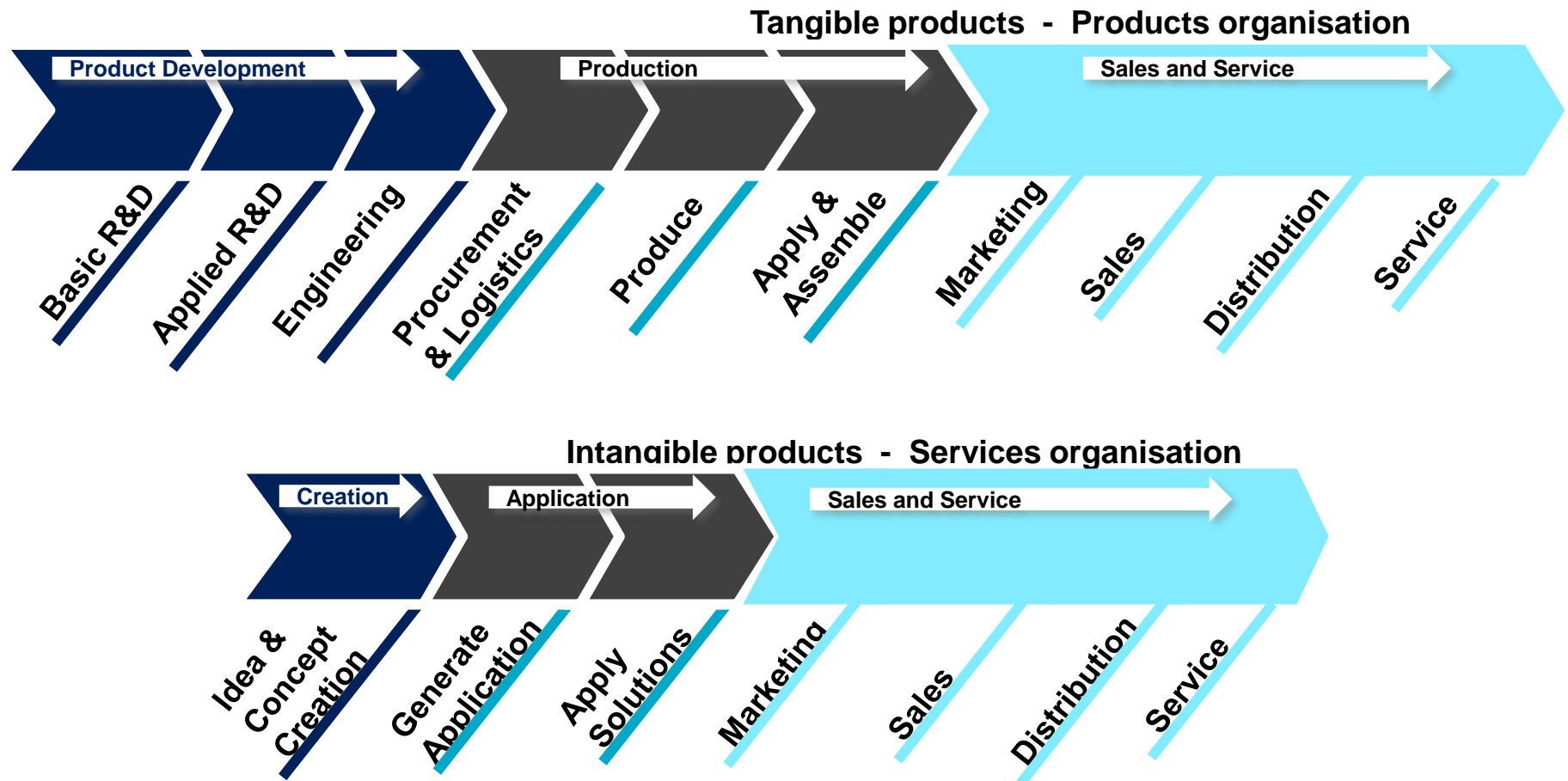Value chain, net revenue/assets, number of employees

✓Evaluate the job

| Impact | Communication | Innovation | Knowledge | Risk |

Sizing
Value chains

Tangible products - Products organisation

Product Development | Production | Sales and Service

Basic R&D | Applied R&D | Engineering | Procurement & Logistics | Produce | Apply & Assemble | Marketing | Sales | Distribution | Service

Intangible products - Services organisation

Creation | Application | Sales and Service

Idea & Concept Creation | Generate Application | Apply Solutions | Marketing | Sales | Distribution | Service

THE IPE FACTORS

✓ **Evaluate the job**

Impact	Communication	Innovation	Knowledge		Risk

Impact
- Organizational Size
- Nature of Impact
  - Contribution

Communication
- Communication
- Frame

Innovation
- Innovation
- Complexity

Knowledge
- Knowledge
- Teams
- Breadth

Risk
- Risk
- Environment

FACTORS AND DIMENSIONS
FACTOR WEIGHTING

Factor	Weight
Impact	**57%**
Communication	9%
Innovation	10%
Knowledge	21%
Risk	3%

705

260

130

115

35

5

10

10

10

0

Impact

Communication

Innovation

Knowledge

Risk

Organization

Contribution

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Complexity

Teams

Breadth

Environment
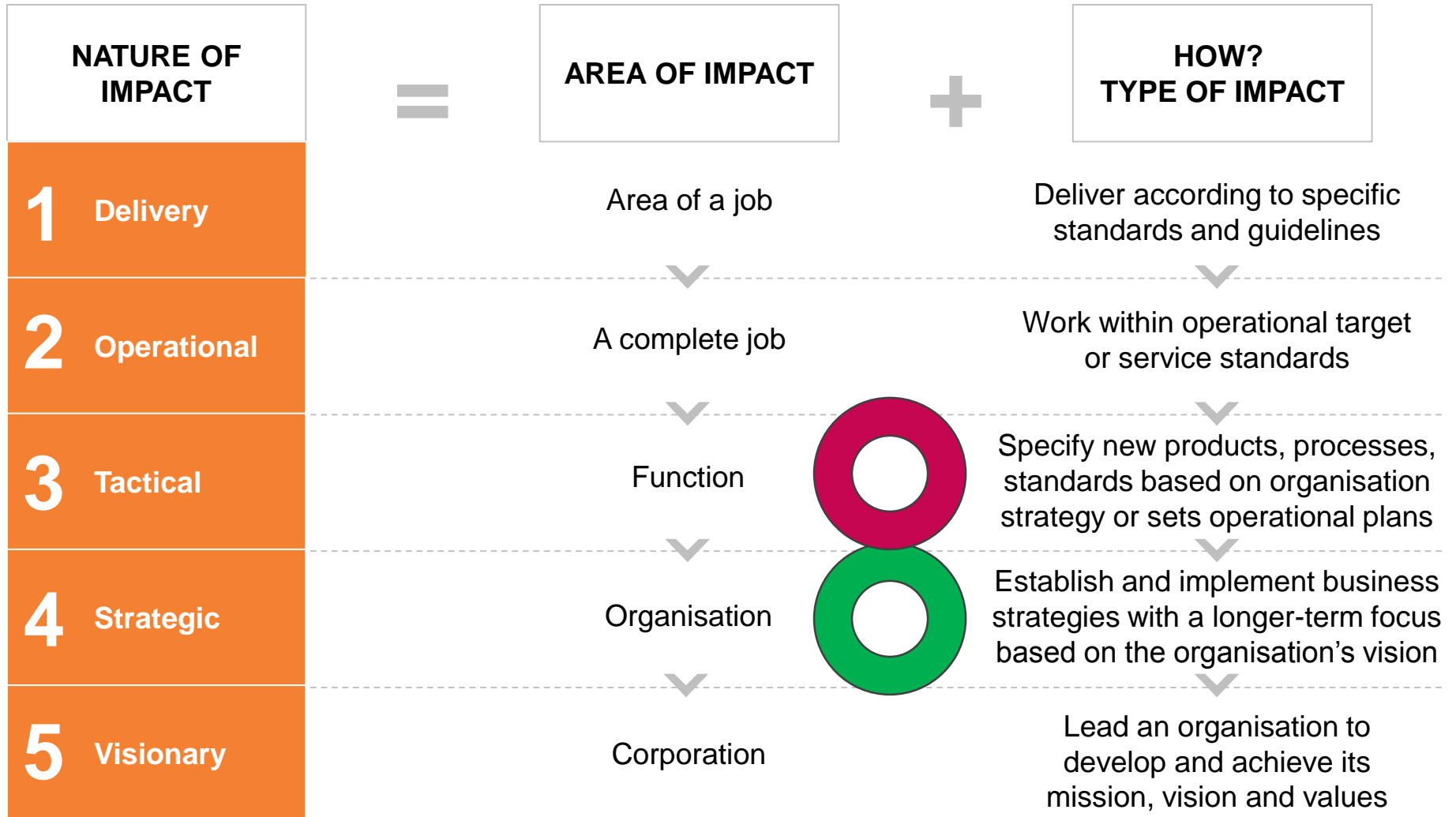
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TWO IDENTICAL POSITIONS…

PRODUCTION MANAGER IN "FAST MOVER"

DK BASED, 1 SITE, 125 EMPLOYEES

PRODUCTION MANAGER IN "GLOBAL TRADE"

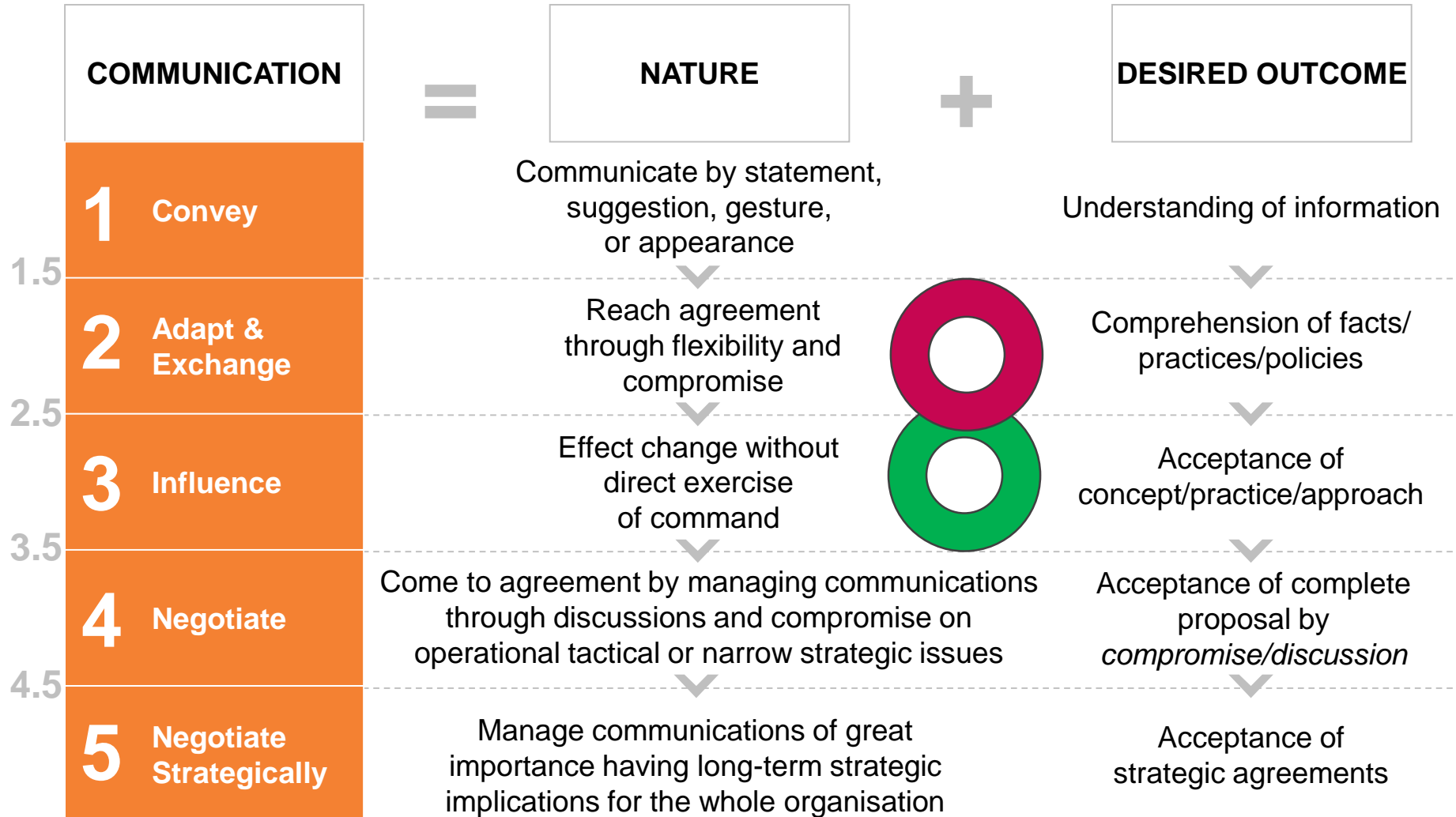### DK BASED, SITES: UK, GE, SP & DK, 6 SITES, 4500 EMPLOYEES

IMPACT

NATURE OF IMPACT	=	AREA OF IMPACT	+	HOW? TYPE OF IMPACT
1 Delivery		Area of a job		Deliver according to specific standards and guidelines
2 Operational		A complete job		Work within operational target or service standards
3 Tactical		Function		Specify new products, processes, standards based on organisation strategy or sets operational plans
4 Strategic		Organisation		Establish and implement business strategies with a longer-term focus based on the organisation's vision
5 Visionary		Corporation		Lead an organisation to develop and achieve its mission, vision and values

CONTRIBUTION

Level of Contribution

1	1.5	2	2.5	3	3.5	4	4.5	5
Limited		**Some**		**Direct**		**Significant**		**Major**
Hard to discern contribution to achievement of concrete results		Easily discernible or measurable contribution that usually leads indirectly to achievement of results		Directly and clearly influence, the course of action that determines the achievement of results		Quite marked contribution with authority of a frontline or primary nature		Predominant authority in determining the achievement of key results
--		-						++
<10%		10–15%		16–20%		21–30%		>30%

Propose ▬ ▬ ⟶ **Decide**

DETERMINE NATURE OF COMMUNICATION

COMMUNICATION	=	NATURE	+	DESIRED OUTCOME
1 Convey		Communicate by statement, suggestion, gesture, or appearance		Understanding of information
2 Adapt & Exchange		Reach agreement through flexibility and compromise		Comprehension of facts/ practices/policies
3 Influence		Effect change without direct exercise of command		Acceptance of concept/practice/approach
4 Negotiate		Come to agreement by managing communications through discussions and compromise on operational tactical or narrow strategic issues		Acceptance of complete proposal by *compromise/discussion*
5 Negotiate Strategically		Manage communications of great importance having long-term strategic implications for the whole organisation		Acceptance of strategic agreements

1.5
2.5
3.5
4.5

SHARED

- Common goals

- Aligned interests

- Mutual desire

- Willingly compromise

DIVERGENT

- Conflicting objectives

- Contradicting interests

- Differing points of view

- Reluctantly compromise

Internal **1**   External **2**   Internal **3**   External **4**

Win – Win   **Win – Lose**
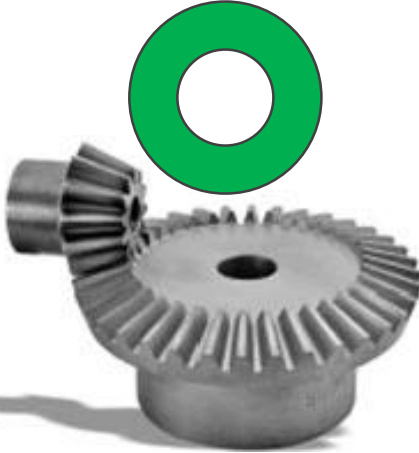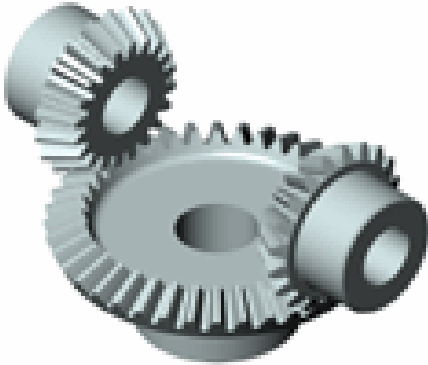
INNOVATION FACTOR: INNOVATION DIMENSION

6 Breakthrough

New and Unpreced ented or Quantum Leap

5 Create

Abstract Idea

to

New Direction

4 Improve

Improved

Original

5.5

4.5

3 Modify

Original

Modified

3.5

2 Check

Defined

Realign with Defined

2.5

1 Follow

Defined

1.5
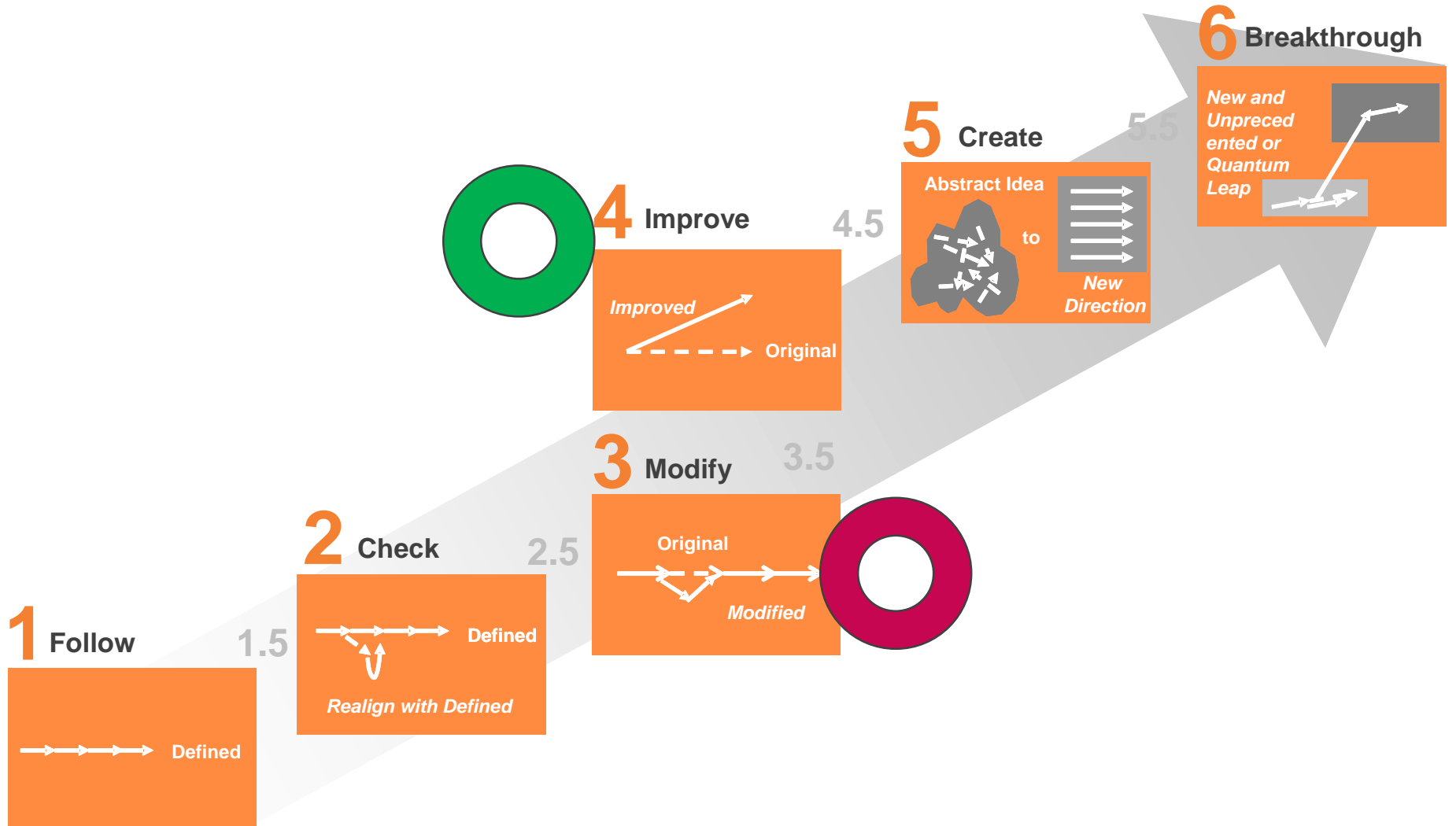
Complexity

Defined	Difficult	Complex	Multi Dimensional
Either operational, financial or human • Easily understood	Either operational, financial or human • **Not** easily understood	Any two of three dimensions i.e., Operational, Financial and Human	All three dimensions – Operational, Financial **and** Human Involved <u>directly</u> in all three dimensions

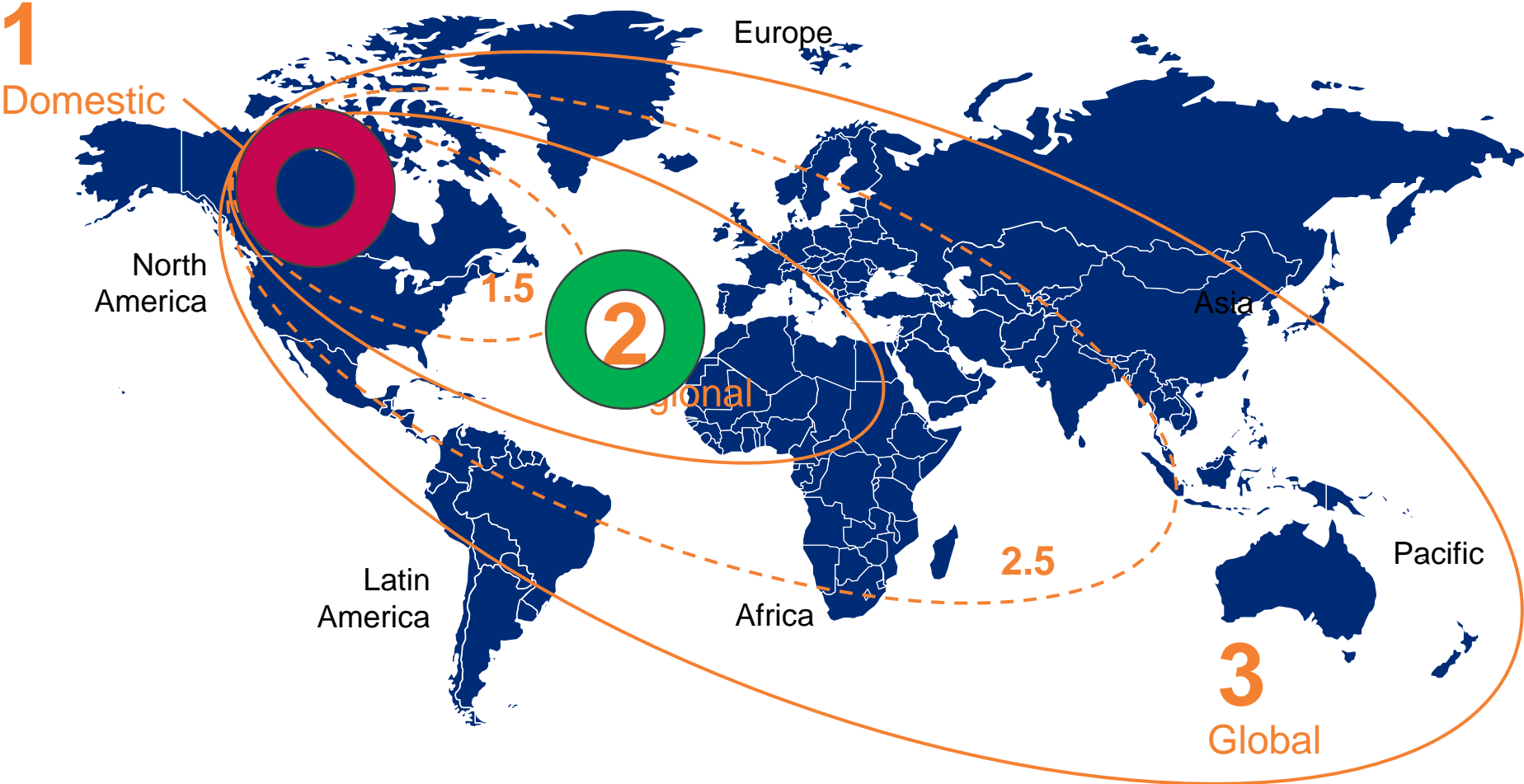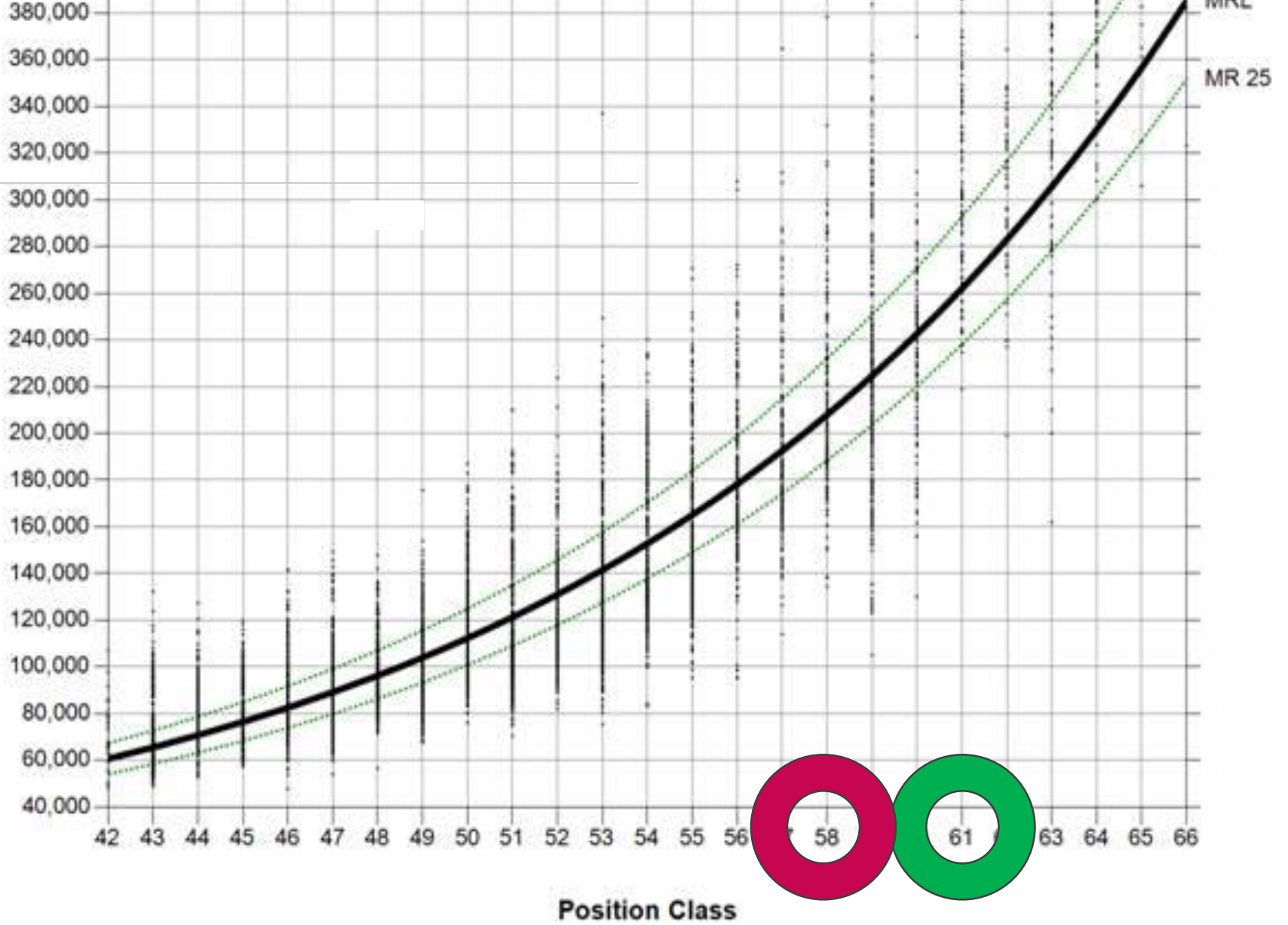**1**   1,5   **2**   2,5   **3**   3,5   **4**

KNOWLEDGE

8		In-depth management knowledge in most functions across several businesses of the corporation
7.5		
7	The industry's expert in a broader discipline	In-depth management knowledge across several line and support functions or businesses
6.5		
6	The organisation's expert in a particular discipline	Broad management knowledge across several functional areas or businesses
5.5		
5	Mastery of specific professional discipline	Expertise across several different areas or disciplines
4.5		
4		Advanced knowledge of specific discipline within specific professional discipline
3.5		
3		Broader theoretical or advanced technical/operational know-how
2.5		
2		Specialized know-how in commercial, technical, trade, or office operational areas
1.5		
1	**SPECIALIST**	Fundamental know-how within narrow boundaries
		GENERALIST

BREADTH

1
Domestic

North
America

1.5

2
gional

Europe

Asia

Latin
America

Africa

2.5

Pacific

3
Global

What is IPE?
Position evaluation – not people evaluation

Position

Person

Performance

Base salary
(example)

Based on job
evaluation

Based on market,
competence etc.

Based on perfomance

Based on role, competence, performance etc.

- Qualifications and Competency $\longrightarrow$ • <u>P</u>erson

- Performance $\longrightarrow$ • <u>P</u>erformance
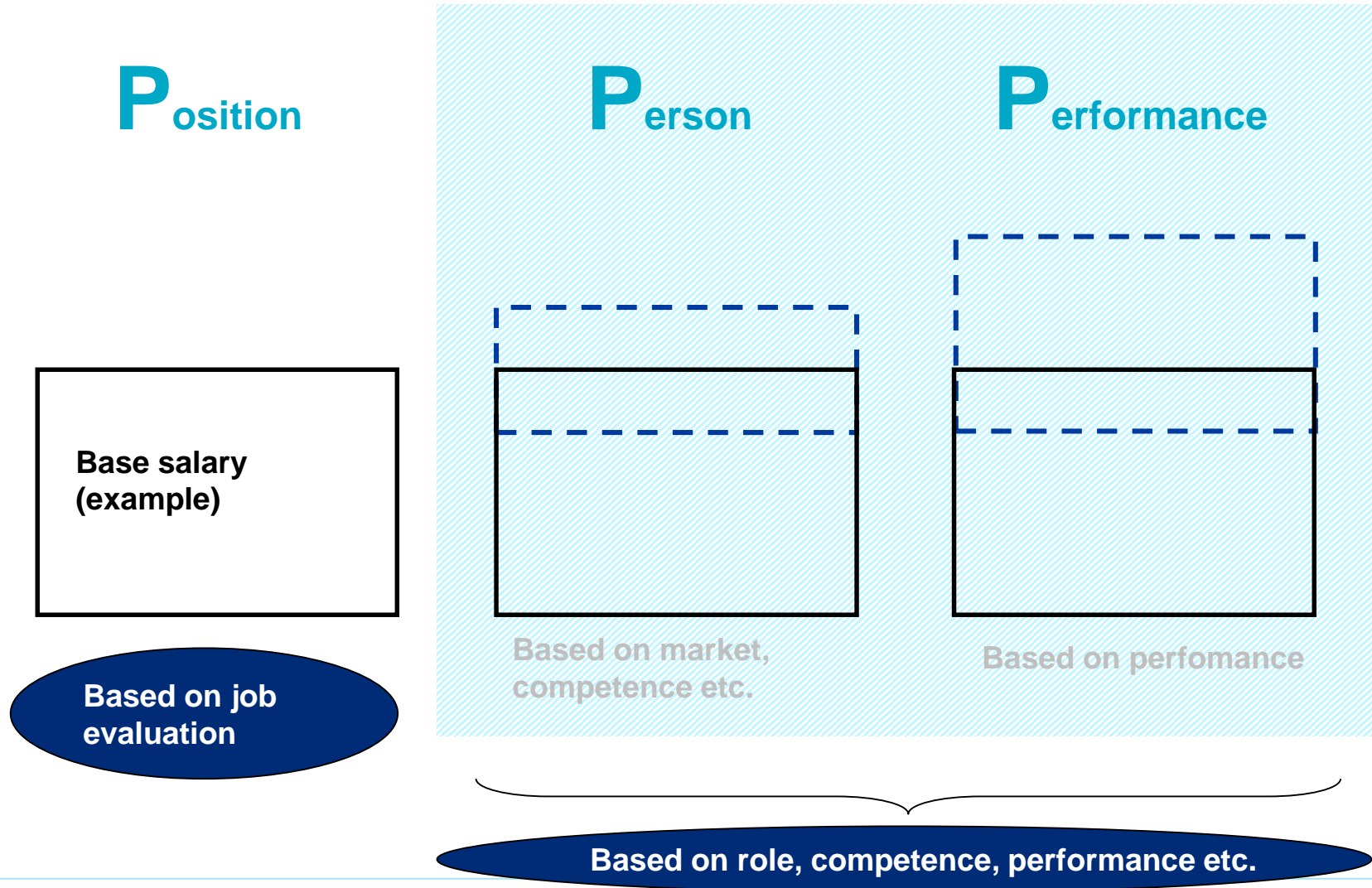
- Market Considerations
- Business Criticality $\longrightarrow$ • <u>P</u>osition
- Impact of Loss
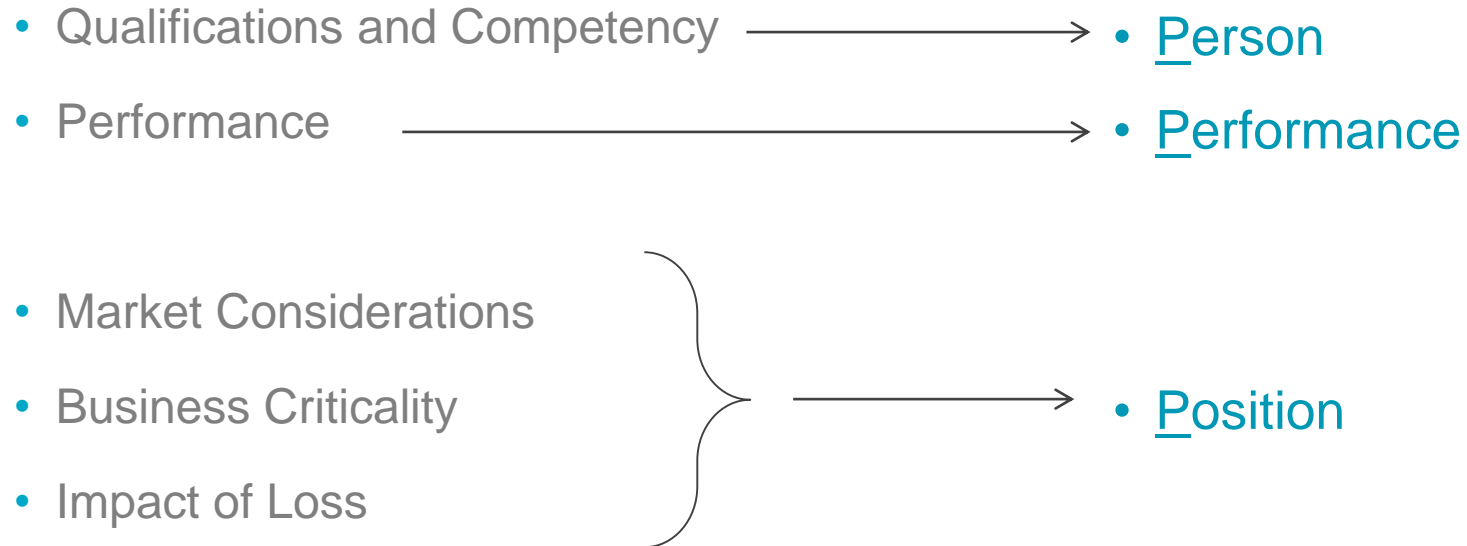
PRO & CON

- PRO
  - Proven tool across many companies and geographies
  - Deeply implemented as the backbone in many organisations
  - Solid Benchmarking material (250 companies in DK) – 140 countries
  - Global system

- CON
  - Separation of position and person can be difficult
  - HR or/and Mercer need to implement and maintain
  - Lower levels in the organisation are difficult to differentiate

MAKE
TOMORROW
TODAY

MERCER

BACK UP

NOT TO BE SHARED

BENCHMARKING COMPARATIVE ANALYSIS: WHERE ARE WE PAYING AGAINST THE MARKET?

- To compare an individual's remuneration against the market, compa-ratios are used

- Compa-ratio (CR) is a representation of relativity and is commonly defined as the ratio between the competitive market rate and the individual's actual rate of pay

$$\text{Compa-ratio (CR)} = \frac{\text{Actual Pay}}{\text{Market Reference Pay}}$$

- For example:

$$\frac{\text{Actual Pay}}{\text{Market Reference Pay}} = \frac{€90,000}{€100,000} = 0.9 \text{ Compa-ratio}$$

PAY RANGES
STRUCTURING BASE SALARY MANAGEMENT

Indicative

Upper Range (5–10 years)
- Salary over market
- Intended for high performers with sustained contribution over time
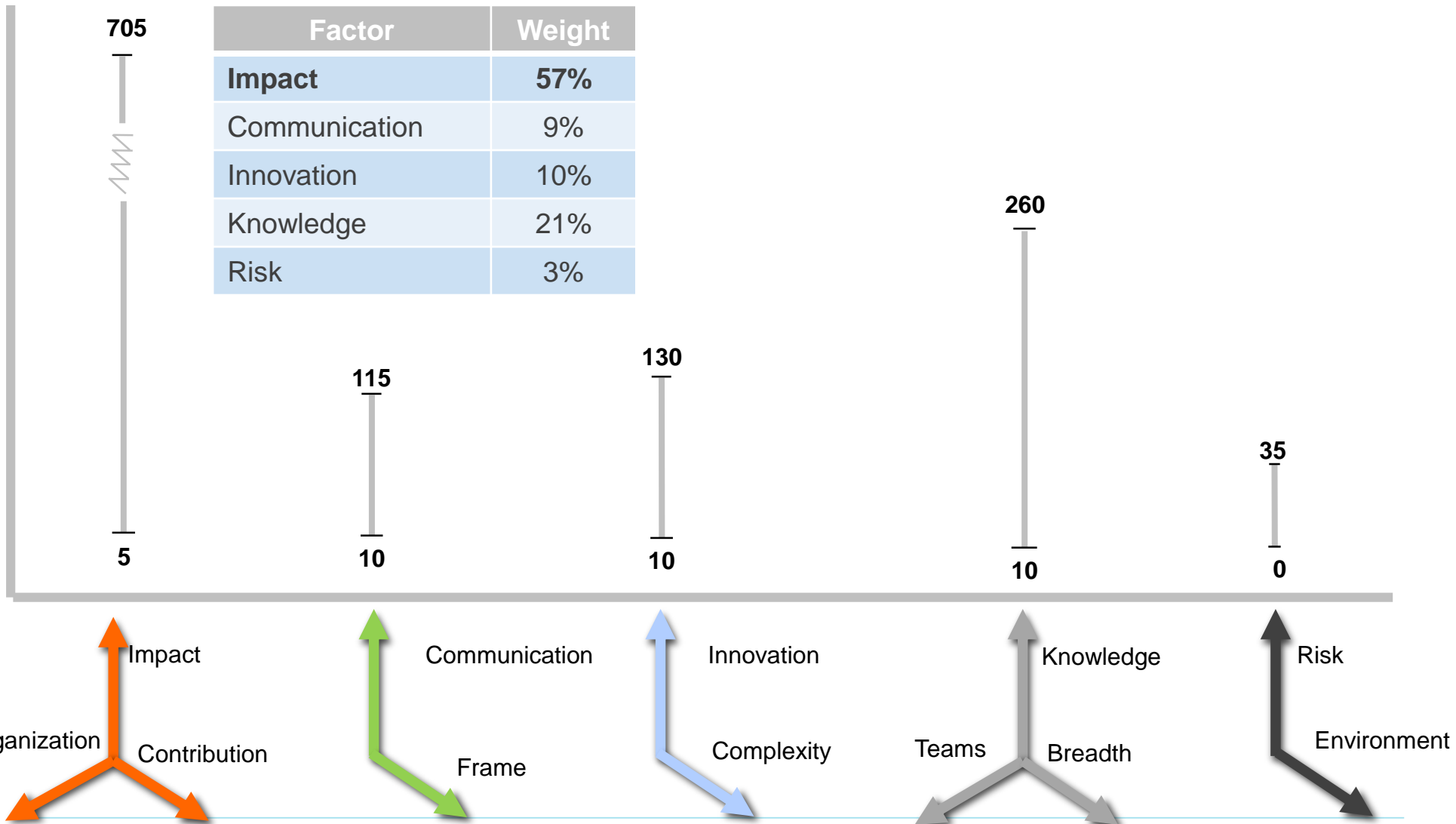- Pay levels for those who make unique contributions that are worth the high cost

Middle Range (3–7 years)
- Salary at the market (e.g. targeting 50th percentile)
- Intended for solid performers with sustained contribution over time
- Pay levels for those who make expected contributions that are worth market pay

Lower Range (0–3 years)
- Salary under the market
- Intended for performers who are learning the job or need more experience
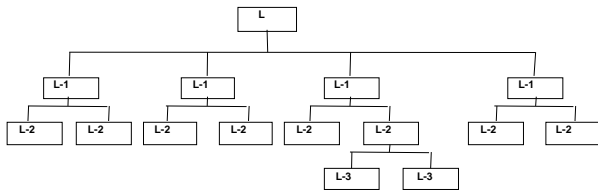- Pay levels for those who are contributing but not yet at the fully expected level

Structure mechanics
- Midpoint-to-midpoint differential
- Salary Range Spread
- Overlap

FACTORS AND DIMENSIONS
FACTOR WEIGHTING

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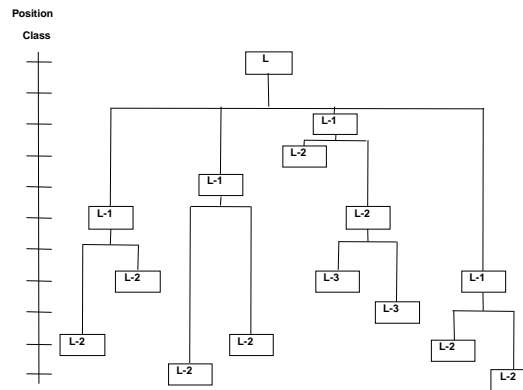
Frame

Complexity

Teams

Breadth

Environment

Organization Chart

Linkage to IPE Levels
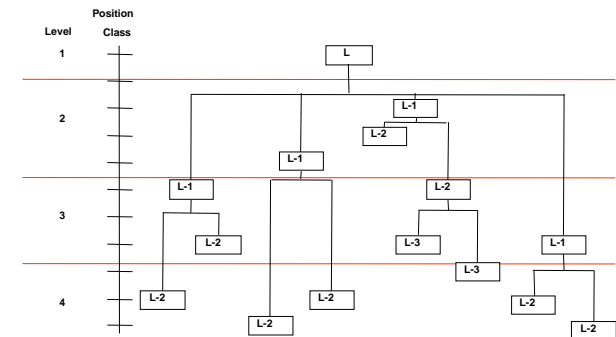
Organisation chart by IPE Level

IMPACT FACTOR ORGANIZATION DIMENSION

Steps to determining an organization's size

Step 1: Identify organisations

Step 2: Determine the nature of an organization and calculate the multiplier

Step 3: Calculate the adjusted revenue

Step 4: Determine the degree using adjusted revenue and number of employees

Step 5: Size the organisation

THE IMPACT GRID

Impact

Nature and scope of influence a position has on its area of responsibility/operation

Contribution

Propose → Decide → Independently Decide

← — Indirect — — — Direct — →

		1 Propose / Limited — Hard to identify contribution to achievement of results	2 Some — Easily discernible or measurable contribution that usually leads indirectly to achievement of results	3 Decide / Direct — Directly and clearly influences the course of action that determines the achievement of results	4 Significant — Quite marketed contribution with a role of frontline or primary nature	Independently Decide — Predominant authority in determining the achievement of key results
1	**Delivery** — Delivery according to specific standards. Area of a job	Deliver own output by following defined procedures/ processes under close supervision and guidance	Deliver own output following broad framework or standards with some impact on job area	Deliver own output according to specific operational targets	Deliver own output within broad operational targets. Significant impact within job area	Deliver own output with major impact on broader operational targets in the job area
2	**Operational** — Work achieves operational targets or service levels. A complete job	Work to achieve objectives and deliver results with a short-term, operational focus and limited impact on others	Set and achieve day-to-day objectives that have some impact on others within the job area	Set objectives and deliver results that have direct impact on the achievement of results within the job area	Set objectives and deliver results that have significant impact within the context of a wider operational area	Set objectives and deliver results that have a major impact within the context of a wider operational area
3	**Tactical** — Specify new products, processes, standards based on organization strategy and mid-term operational plans. A function	Provide input into new products, processes, standards or operational plans in support of the organization's business strategies, **with limited impact** on BU/ function overall results – less than 10%	Provide measurable input into new products, processes, standards or operational plans in support of the organization's business strategies, **with some impact** on BU/ function overall results – 10 up to 15%	Develop new products, processes, standards or operational plans in support of the organization's business strategies, **with a direct impact** on BU/ function overall results – 15 up to 20%	Develop or define new products, processes, standards or operational plans based upon business strategy, **with a significant mid-term impact** on BU/ function overall results – 20 up to 30%	Predominant authority for development of new products, processes, standards or operational plans based upon business strategy, **with a major mid-term impact** on BU/ function overall results – more than 30%
4	**Strategic** — Establish and implement business strategies with a longer-term focus (typically 3 to 5 years) based on the organization's vision. An organization	Provide input to a corporate BU or organization's business strategies and results where input is limited by scope of the role – less than 10%	Provide measurable input to a corporate BU or organization's business strategies, within limits of the role or input of others – 10 up to 15%	Directly influences development of a corporate BU or organization's business strategies within the context of the overall corporate strategy – 15 up to 20%	Marked contribution to defining the business strategies of a corporate BU or organization, but not predominant authority – 20 up to 30%	Predominant authority for defining the business strategies of a corporate BU or organization, influenced primarily by the vision for the organization – more than 30%
5	**Visionary** — Lead an organization to develop, implement and share mission, vision and values. A corporation	Lead an organization within a corporation or a corporate BU with responsibility for influencing the organization's vision; influence is limited by strong direction from other units or headquarters	Lead an organization within a corporation or a corporate BU with responsibility for providing strong direction regarding the organization's vision; approval of vision will ultimately exist at the corporate level	Lead an organization within a corporation or a corporate BU with responsibility and authority for deciding on the organization's vision; vision may be influenced in part by corporate vision and strategy	Lead an independent organization or multiple organizations or corporate Bus within a corporation; freedom to define vision and direction influenced only by direction from the board	Lead an organization with multiple organizations or Bus; create, communicate and implement mission, vision and values for entire corporation; freedom to define vision and direction influenced only by input from the board

MANAGING EMPLOYEE PROGRESSION
LINKING PERFORMANCE TO SALARY PROGRESSION