

In their own words ...

"It used to be a big deal for someone to leave and to go to another country . . . now it's becoming an expectation on one's resumé in order to demonstrate the global experience needed to advance in global organisations."

Julie Molloy,
Tax manager, international assignment services,
Bank of America NA

"We are seeing an increase in the number of locations that I expect will continue, focusing on emerging markets and particular regions in Europe, Africa and Asia."

Lisa Wiley,
Senior manager, international assignments, corporate tax, Oracle Corporation

While millennials, broadly speaking, may view international opportunities as a rite of passage, there are dangers to assuming it as the right course of action in all circumstances. Chris Roebuck, consultant and former global head of talent at UBS, argues that the fit between business need and individual circumstances must be a good one. "We have to get out of this mindset of global moves being the best solution for all. The idea that everyone needs a new role or a change in location every two years is erroneous. Those organisations that fall into that trap really are not looking at how they are tailoring opportunities to individuals to get the best performance. Organisations need to ask themselves about the objectives they are trying to achieve. And if their end is to develop a particular person, they then need to ask whether that could be achieved by moving them to another function in another part of the business, but across the road rather than on the other side of the world."

When managing the careers and expectations of the very top performers, HR directors and senior managers will need to bear in mind that these individuals will be in demand. "Businesses will come under pressure to impart to millennials the reward structures they desire," argue the report's authors. "It is not outlandish to suggest that, rather like the professional sports arena, highly-prized millennials will have their own agents. Their remuneration packages and employment terms will be subject to frequent negotiation."

In this kind of scenario, employment loyalty may be in short supply, says Johnson. "Millennials won't necessarily have that same level of loyalty that we have seen in the past. People will be prepared to move company more

frequently, going wherever they perceive the best opportunities to be, including internationally." That coincides with the now quite different picture that is emerging in long-term employee benefits, argues Johnson. "Many defined benefit pension schemes are now closed to new members. These often generously-funded schemes lent themselves to employees participating over a great length of time, encouraging loyalty to the company and, in some circumstances, acting as a barrier to international mobility. The shift to defined contribution schemes means there is more onus on the individual to save over the long term, but the nature of these schemes makes them more flexible and transferable. That takes away another loyalty barrier and we'll see millennials being more mobile and focusing on the next opportunity rather than the longer term."

So how can organisations engage with a more flexible, but potentially less loyal, workforce? Alan Johnson says that the focus on international assignments as part of the development programme for senior individuals will be swapped for closer attention to the aims of the organisation. "In the past, organisations have looked at international assignments as part of individuals' development programme. In the future, international experience will still tend to get you further up the ladder. On the other hand, there will need to be better management of these assignments so that assignees get up to speed quickly in their new location, whether technically or culturally. Organisations will also need to make sure they leverage the experience in the next assignment. There has been an element of 'out of sight out of mind' in the past and there will perhaps need to be greater focus on keeping tabs on international assignees, determining what that assignment is doing for the organisation."

Who would be an

The economic crisis has turned the spotlight on the role of non-executive directors. But with their responsibilities on the increase, are good candidates still prepared to take the risk?

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We may be emerging from the gloom of recession, but the worldwide economic downturn, caused in part by financial mismanagement at the very top end of business, has shone the spotlight on corporate governance with an intensity only matched by the scandals of Enron and Worldcom at the turn of the century. As such, the role of non-executive directors (NEDs), as custodians of the governance process, is under increased scrutiny.

NEDs face pressure from both sides — their responsibilities are increasing (particularly if they sit or are chair of the remuneration committee, a role which, as we will see, has become much tougher), and at the same time much of the public anger surrounding corporate governance post credit-crunch has been aimed squarely at them.

“Clearly there has been greater attention on the NED role following the economic downturn. Questions were being asked about whether they were fulfilling their role in challenging [the decisions made by management] enough,” says Liz Smith, director with PricewaterhouseCoopers’ HR Consultancy. “There is a level of public interest after the economic crisis,” continues David Wright, chair of PwC’s NED programme, “and pressure from the press. A lot of people lost a lot of money. The problem is that the public doubts the competence [of non-executive directors].”

So how are NEDs managing their increasingly difficult role? And are people with the right skills and experience still willing to take on the position?

The role of a NED is “critical” in ensuring the health of the business sector “by undertaking a monitoring role as representative of shareholders,” says Sean O’Hare, partner, PwC Human Resource Services. “The role is difficult — for most of the time they want to be supportive of the management in both developing and implementing strategy, but at other times they need to be challenging to ensure that management is sticking with the core strategy and is not being distracted.”

Once seen as a relatively cushy option for the recently retired, a NED appointment has become a serious commitment. According to the PwC Monks report *Non-Executive Director Practice and Fees*, the average time commitment for the non-executive chairman of a financial company has increased significantly in 2009 from 80 days to 110, while even a NED in a smaller company, (defined in the report as one with revenue up to £75m) can expect to devote 15 days to the job, a figure that is bound to rise.

Experts believe that NEDs sitting on remuneration committees will be the next to feel the pressure. “They will be feeling particularly anxious,” says Smith. “It’s always been thought that sitting on the audit committee was the tougher role but that’s been overtaken by the pressures on those NEDs sitting on

NED?

the remuneration committee. Because everybody focuses on you and really you're in a no-win situation."

As a result many NEDs have expressed concern that current fee levels do not reflect their time commitment or the reputational risk of sitting on a company board. But an increase in their fees would be difficult to justify when many companies are making large-scale redundancies, employee pay cuts and closing pension schemes. According to the survey, nearly half of FTSE 100 companies have not increased the fees over the past year.

HR has invariably found itself caught up in the heated debate over pay, particularly when it is called in as advisor at remuneration committee meetings. "It's a big challenge for an HR director and one that has come to the fore in the last two years," says O'Hare. "While it was relatively easy before to look at targets and benchmark data in order to make a decision, they now have to say if we're closing factories globally and imposing pay freezes on the general workforce, should we be sanctioning this level of pay adjustment at the senior level just because our competitors are?"

The changing environment has created a very different dynamic between the parties, believes O'Hare. "[HR directors] need to be demonstrating technical and behavioural ability," he says. "And not seen to be siding with either the chair or the CEO."

The role of NEDs in setting remuneration strategy has been highlighted recently in the financial sector by Sir David Walker's report on the corporate governance of UK banks and other financial institutions. Sir David Walker recommended substantial changes to the way the boards of these institutions function, in particular through boosting the role of non-executives in the risk and remuneration process.

Specific recommendations of the Walker review, which at this stage is still a consultative document, include proposals that the chairman of the board should face annual re-election; that the remuneration committee should oversee the pay of high-paid executives not on the board; and that the chairman of the remuneration committee should face re-election if the report gets less than 75% approval.

O'Hare believes that some of the Walker review will have an impact, but mainly for the financial sector. It is though, he says, "more prescriptive than many thought it would be. Many thought his report would be light touch — it isn't."

With so many difficult issues to keep up with, it's critical that NEDs are made of the right stuff. "NEDs needs to be challenging; they need to have it in

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their DNA," says Wright. As a result, potential candidates with a successful track record as executives are in high demand, particularly CEOs and finance directors.

The burning question, of course, is what being an NED brings to their career. For some, says Wright, it is a simple case of career progression: "You sometimes find that CFOs feel the need to make the choice of whether to go for the CEO role or switch to a NED and then become chairman," he says. "It's a challenge, it keeps networks going, it gives personal satisfaction and then there is altruism — giving something back," adds Smith. That's not to say that taking on a non-executive directorship is not without its challenges. "Some find it difficult to adjust," says Smith. "Someone said to me it's a case of 'noses in and fingers out'."

There are some very important non-executive jobs to be had, but is there a danger that, with the increased scrutiny, mounting regulation, greater reputational risk and perceived little reward, talented would-be NEDs will be put off? "It's too early to say," says Smith. "but people are definitely thinking longer and harder about doing it."

"It's fair to say that it appears to have taken companies longer to appoint a non-executive chairman over the last two years than perhaps has been the

case in the past,” adds O’Hare. “This however may be due to the fact that companies are flagging sooner than before their intention to change the incumbent in the chairman position and, therefore, perhaps, it is in the public domain a little longer than has historically been the case.”

Although, as Smith says, “today’s NEDs do take the role seriously; it’s a very professional role, and the majority take it very carefully and diligently”, improving the quality of the NED pool is key to the future success of the position.

Whether good governance or more regulation will avoid poor performance is debateable, but what is necessary is getting the right people to become NEDs.

According to the PwC survey, four ways in which quality can be improved are:

- more diversity in the boardroom
- better development and education of directors
- improved access to external and individual advice
- higher non-executive fees to attract the best skilled and experienced.

Certainly some of these have been, and continue to be, addressed by companies. “While there’s been much written in the press around the whole diversity issue of non-executive directors (namely that they are mainly white males), the range of nationalities and related skills of individuals who had been appointed non-executive directors has changed over the last five years,” says O’Hare. “In the UK, for instance, there are more non-UK nationals on the main company board than was the case some 10 years ago. Partly this is a reflection of the international reach of UK businesses, but it’s also a reflection of the fact that younger executives are taking on non-executive director positions earlier in their career.”

Help is at hand too from initiatives such as the PwC Non-Executive Director programme, the demand for which is growing rapidly, according to Wright. The programme includes a series of briefings and workshops designed to assist NEDs in the challenges they face — covering everything from whistleblowing to corporate manslaughter. It also meets the growing need for peer-to-peer networking and the exchange of information with specialists.

If the quality of the NED candidate pool is improving, companies still need to access it efficiently. “Companies continue to find the right people by a number of different methods — word of mouth and personal recommendations continue to be an important element,” says O’Hare. Headhunters tend to be used widely, but this can actually limit access to all good candidates, believes Smith. “They’re not getting to the wider pool,” she says. “Getting into the



FTSE 100 is very difficult if you haven’t already got FTSE 100 experience so it’s rather a catch 22, and there are a lot more people out there.”

Initiatives such as the PwC NED programme and personal networks are part of a way of getting access to a wider pool, as are websites such as The NEDExchange and groups aimed at helping women break through the glass ceiling. These include the FTSE 100 Cross-Company Mentoring Programme and the Professional Boards Forum, which runs two major UK events each year for “board-ready” women non-executive director candidates.

With a successful infrastructure in place for getting quality NEDs, keeping them up-to-date with all the challenges of the business environment, and allowing companies access to them, the NEDs of the future can continue in their important work towards a robust, if not infallible, corporate governance system.

Driving incentives

Contrary to popular opinion, company cars continue to form an important part of benefit packages, though environmental awareness and tax policy are now in the driving seat.

Is the end of the company car nigh? One would be forgiven for thinking that one of the most visible of corporate perks was under threat, as businesses seek to control costs and environmental concerns drive demand. Indeed, as Lloyds TSB Autolease has found, one in four company directors would be prepared to cut all forms of employee benefits, including company cars. In fact, the car leasing company's survey showed that the company car, one of the most popular employee reward schemes since the 1980s, is the benefit most at risk. Some 14% of directors polled would, given the choice, opt to cut this scheme first, while a further 5% would add car allowances to the hit list.

Even so, Autolease believes that such views are based purely on the financial costs of such schemes, and ignore the important role they have as an employee reward. As Claudia Rose, corporate sales director at Autolease, says: "The perceived value of a company car is often higher than the hard cash value, so it remains a great tool for rewarding and motivating staff." The implication is that, despite growing environmental awareness and an increasingly complex tax regime, both in the UK and across Europe, company cars are as popular as ever.

"Rightly or wrongly, company cars are still very high on the list," says Matthew Hunnybun, head of employment solutions at PricewaterhouseCoopers. "This is simply because they are a demonstrative way of showing how you are doing, and they remain an important perk." However, figures suggest there has been a gradual decline in company cars in a number of developed countries over the last five years. According to the Society of Motor Manufacturers and Traders (SMMT) the number of cars in the UK registered as business or fleet cars — fleets are classed as 25 vehicles or above — dropped from 1.37m in 2004 to 1.24m in 2008, a fall of nearly 10%. Of course, not all of these will have been "perk" cars by any means, as there are many organisations where staff need a car to carry out their business. And the drop is nothing like the fall in registered private cars — in 2004 1.2m cars were registered, in 2008 that figure fell to 0.9m.

Much of the decline in company cars in the UK and in Europe has been put down to the changes in tax legislation. In 2002 the percentage used to calculate the benefit was first based on carbon emissions in the UK and, thanks to an European Commission Directive, all European Union Member States will have to meet similar requirements by 2012 (see box, page 34). Hunnybun has seen how this change has affected both employers and employees in the UK: "There is more of a consciousness towards lower CO₂ emission vehicles. More and more, people are becoming astute to choosing vehicles that are going to reduce the tax charge, but still give them kudos," he says.

This is certainly backed up by available statistics. According to research from



Emissions taxes in Europe

All EU member states have agreed to reduce CO₂ emissions in new cars to 120g/km by 2012. Under a new EU Directive, 50% of car taxes within the EU must also be related to CO₂ output by 2010. Here is how some key EU member states have approached the new requirements:

France

The French government has taken CO₂ emissions into consideration when calculating registration tax since 2006, with a surcharge for vehicles with emissions over 200g/km. Company car tax is based on CO₂ emissions on a scale basis, ranging from €2 per gramme for cars emitting 100g/km to €19 for cars emitting more than 250g/km. Cars that run on electricity, LPG and other similar fuels are exempt from emissions-related company car taxation for the first two years.

Germany

The car-loving Germans have been slower than much of Europe to embrace emissions-related taxation but converted to a system of annual circulation tax based on CO₂ emissions in January 2009.

Belgium

Company car tax is based on CO₂ emissions, as is the deductability of expenses related to the use of a car. Tax incentives worth up to €4,300 are available to individuals who buy a car that emits less than 115g/km.

Ireland

Registration tax is based on CO₂ emissions and hybrid vehicles receive an additional tax relief worth €2,500.

Italy

Anyone purchasing a new car with emissions less than 140g/km receives a tax incentive and a two-year exemption from annual circulation tax.

the British Vehicle Rental and Leasing Association (BVRLA), whose members operate a combined fleet of nearly 2m cars, the average CO₂ emissions of vehicles coming on to their fleets in 2008 fell to 149.9g/km. In 2007 the average contract hire vehicle had emissions of 157.4g/km. The reductions seen by BVRLA members outstrip those seen across new car registrations as a whole. According to the SMMT, average new car emissions in 2008 fell to 158g/km. "These figures show that drivers are choosing low emitting cars to optimise their personal tax while companies are encouraging them to take more fuel-efficient cars to save on running costs," says BVRLA chief executive, John Lewis.

In fact, many employers are now putting an emissions cap on the choice of car offered to staff. With 35% of companies now having a green transport plan, PwC found that a similar proportion of companies that offered company car benefits placed a CO₂ emissions limit on the employees' choice of car. Many companies will be looking for cars that are below the 160g/km threshold for CO₂ emissions, the point at which, under the new capital allowances legislation in the UK, company cars attract a writing down allowance of 20% per year — above 160g/km the allowance is only 10%, while below 110g/km it attracts 100%.

Ian Tilbrook, managing director of ING Car Lease, believes that a new culture, focused on the sub-160g/km CO₂ category, has begun to take hold. He says: "The new tax laws, along with the impact of the current financial climate, have really focused minds on the search for lower fleet costs. We are seeing a big shift in the number of fleet managers who are opting for cars that are under the magic 160g/km threshold, which has been made easier thanks to the rise in the number of models that now fall within this bracket."

But it is not just tax and capital allowances that are driving the need for companies to look at their company car costs. For instance, second-hand car values have dropped. This means that residuals — the amount a car is worth after three years, expressed as a percentage of its original list price — have dropped, which in turn means the car leasing companies that run many company car schemes are offering very cautious terms to their clients. This has the net effect of increasing costs for the companies concerned. A move to encouraging employees to take a cash alternative then becomes very attractive. "We are at a very interesting situation with employers," says Alistair Kendrick, director at accountancy firm Mazars, "because they don't want to spend. The bottom has dropped out of the second-hand car market Europe wide, and that has made company cars a very expensive commodity. Companies are trying to see whether they really do still need to provide company cars, and ask if they can provide a cash alternative."

This move may also come about indirectly — as companies push their



employees towards lower emission cars, these employees, especially those that receive a company car purely as a perk, may opt out of the scheme if the style of car becomes unattractive. There are real parallels here with defined benefit pension schemes, since company car schemes can effectively become closed to new joiners.

However, Kendrick observes that a move to lower emission cars, or even the scrapping of car company cars as a perk altogether, has to have buy-in from the board. If the chairman is unwilling to give up a flash car, this does not send a good message to the rest of the company. Then there is also the serious aspect of duty of care legislation — companies could be at risk if they are not able to control the quality of vehicle used on company business. “If you tell a member of staff that they need to drive to a meeting in their own car, and they have an accident, the Health & Safety Executive will say that you had a duty of care and should have checked the car,” Kendrick argues. Of course, it is right that companies are careful, so if you have staff doing essential business mileage, then you have to think about whether you are comfortable with them taking the cash alternative. And, according to Hunnybun, companies are concerned about their so-called ‘grey’ fleet of private cars used for business purposes. This is becoming an increasing worry in the public sector.

A further problem with cash alternatives is that, as Kendrick puts it, “companies are making fundamental errors in how they calculate the cash

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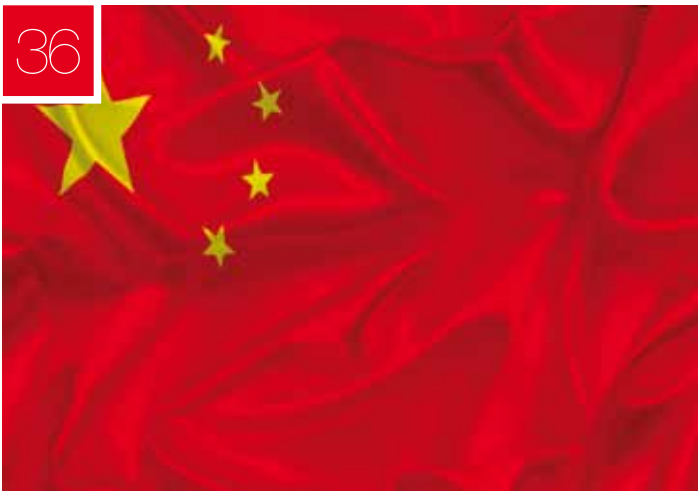
Cash alternatives might look unappealing to staff while at the same time being overly generous from the company’s point of view. This is why ‘whole life’ calculations on the cost of a company car are important, rather than relying simply on list price calculations.

that they offer instead of a car”. Companies often don’t understand the tax implications and what can be written off against tax with a company car. And then there is the issue of reimbursing fuel costs for staff that drive on company business in their own cars. “A lot of companies still pay AMAP rates but if you are paying these, and you are also giving staff a generous cash allowance, you are giving your employee a double whammy relief,” Kendrick says. This creates an interesting paradox, especially if staff do not appreciate the full cost of a company car. Cash alternatives might look unappealing to staff while at the same time being overly generous from the company’s point of view. This is why ‘whole life’ calculations on the cost of a company car are important, rather than relying simply on list price calculations. “Cash alternative arrangements are not quite as simple or straightforward as people seem to think,” says PwC’s Hunnybun, “and there can be better ways of giving staff the means to provide a vehicle than in cash.”

Perversely, one such scheme could see the number of company cars increase in the future. Salary sacrifice schemes, where staff are able to forego pay in exchange for a company car, no matter what level in the organisation, are becoming more popular. “Employees will give up a certain amount of their salary, which would have been subject to income tax and national insurance, and instead take a company car,” explains Hunnybun, “and the tax charge on that company car, providing they choose the right one, is less than they would pay for the amount of salary they have given up. It’s a very tax efficient way of getting a car.” Perhaps the rumours of the demise of the company car are, if not exaggerated, then at least premature.

The ripple effect

The Olympics in Beijing were just one event over the past five years that has put Asia firmly on the map. *Joanna Hall* explains how the ripple effect is being felt all over the region.



Hosting the 2008 Beijing Olympics was a major coup for China and something that has definitely put the People's Republic, and Asia as a whole, firmly on the global map. The world-class delivery of the games and the gold medal-winning achievements of the country's athletes demonstrated that the region is well ahead of the game in many areas. As Asia emerges as a major player on the world stage, the pace is set for China to become a major hotspot.

So has this renewed focus on Asia had any effect on HR? Certainly, the emphasis on adding value has led to a greater need for efficiency and effective delivery models, leveraging on the skills of the labour force to deliver a more customer-driven service — not something you would readily have expected in China even a few decades ago. Competition from global retailers has led to a steep rise in demand for high customer service levels as international brands dominate the high street.

As Asia steadily increases its global economic presence, there is an increasing need within financial services for a capability balance between commercialism and risk management, financial innovation and relationship-building.

There are other pressures which are shaping the focus of HR professionals, among them an ageing population which is placing increased pressure on healthcare, with a growing need for specialised professionals in this sector. The growth of information communications has led to a refocus of growth priorities for telecoms with a need to attract new talent and the food and beverage sector is expanding into newly-developed areas as a result of the need for innovation and differentiation within a crowded market.

China alone is favoured as the number one outsourcing destination for pharmaceutical manufacturing, with cost savings ranging from 50-80% and the East region's pharmaceutical annual market growth assumption expected to be 10-15%. Mergers and acquisitions activity in China has also continued to outpace activity in other BRIC nation (Brazil, Russia, India and China).

The statistics are impressive and it doesn't stop there: China leads as the preferred retail opportunity and is on track to surpass Japan to become the second largest retail market by 2013. Market size for clothing and footwear is set to increase from US\$155 billion to \$256 billion by 2013.

Demand in HR consulting is due to a growth in merger and acquisition activities, an appetite for key human capital services as companies review their top talent, coupled with escalating reward packages, and an increased demand to advise on the growing demographic and immigration issues.

Just as Olympic divers, such as the UK's own prodigy Tom Daley, create a ripple effect in their efforts to be number one, competing organisations are experiencing the knock-on effects of their own performance. They need to make an impact and it isn't necessarily about making a big splash. Companies which are aiming to be market leaders need to place talent at the top of the agenda and, if they wish to stay at the top, this will mean placing great emphasis on creating sustainability within their workforce.

A rise in workforce and talent redeployment shifts the focus from short-term recruitment to longer-term resourcing of key capabilities and skills — recruiting for future potential. Forecasting resourcing and capability requirements allows businesses to adapt more easily to changing markets and competency redefinition shifts the mindset to driving an increased contribution from people, establishing new ways of working and creating a high performing culture. Talent is seen as a business-wide responsibility — focusing on organisational and individual competency, contribution and commitment. Alignment of talent programmes to the wider business and aligning performance with reward provides a coherent, consistent and connected strategy.

Above all, continuing the measurement of talent to address challenges before they hit the bottom line is a strategy which will pay dividends for China and Asia as a whole. Taking the world title means looking over your shoulder at the next generation: being Tom Daley is certainly better than giving yourself a headache!

Joanne Hall is a senior manager in PricewaterhouseCoopers' Singapore Financial Services Industry practice, specialising in People and Change.

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References and further reading

Page 14

Manpower's quarterly employment survey can be seen at:
<http://www.manpower.com/press/meos.cfm>

Page 18

The CBI's report *Time Well Spent* can be found at:
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The UKCES report *The Employability Challenge* can be found at:
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Page 22

The Liberal Democrats' paper *A Lifeboat for the Lost Generation* can be found at:
http://www.libdems.org.uk/siteFiles/resources/PDF/Lost_Generation.pdf



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Mark Carter - E: mark.p.carter@ie.pwc.com, P: + 353 1 792 6548 or
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