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Executive Compensation Eligibility in Global Businesses: A Global Banding Approach

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Abstract

As corporations expand their geographic reach and executive talent moves across geographic borders as freely as capital, global compensation executives must keep pace. Ethnocentric, nationalistic and parochial HR systems and policies inherited from the past that are focused on a single country may actually be barriers to the establishment of effective global organizational processes. Leaving local units in various countries determine their own executive compensation philosophies and practices may be equally detrimental.

Keywords

executive, compensation, eligibility, global, business, corporation, hr, talent, management

Comments

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Executive Summary

As corporations expand their geographic reach and executive talent moves across geographic borders as freely as capital, global compensation executives must keep pace. Ethnocentric, nationalistic and parochial HR systems and policies inherited from the past that are focused on a single country may actually be barriers to the establishment of effective global organizational processes. Leaving local units in various countries determine their own executive compensation philosophies and practices may be equally detrimental.

There is some evidence of convergence of executive compensation philosophies amongst global corporations. American pay for performance systems are being deployed in many parts of the world (Gomez-Meija and Welbourne, 2000; Towers Perrin, December 2001). In a recent report (Towers Perrin, April 2001) 15 out of 22 countries surveyed estimated that 75% or more of local companies have Long Term Incentive (LTI) plans. In an effort to motivate their global leadership teams, large U.S. based companies have been extending their LTI plans outside of the U.S.

Consistent compensation philosophy does not necessarily translate into consistent practice between countries. For example eligibility criteria for stock options varied dramatically across the 22 countries in the Towers Perrin survey. Inconsistent practices across countries can present significant challenges for global companies such as difficulties deploying talent across borders and in aligning HR management systems with strategic intent. As business complexity, size, functional breadth and geographic reach increases, so does the need to develop consistent compensation practices across a broad executive constituency.

Twenty out of 55 sponsoring companies of Cornell's Center for Advanced Human Resources Studies (CAHRS) responded to a survey regarding the practices they use to determine executive compensation eligibility for global executives. Some of the key findings include:

- **Within Company Global Consistency is High**: 95% of respondents reported using the same scoping and leveling methodology for their domestic and international operations.
- **Scoping/Leveling Methods Vary Between Companies**: 60% of respondents use formal job evaluation systems and 40% apply consistent job titles.
- **Definitions of Executive Compensation vary Across Companies but Within Company Consistency is High**: Though there was little consistency in the way companies define executive compensation, 90% report that they apply the same eligibility criteria for their global HQ and their international operations.
- **Compensation Eligibility Methods Vary Between Companies**: 65% of respondents utilize job evaluation systems, some of which also use job titles. 20% of respondents have adopted a banding system. Other methods include organizational reporting structures, an "eight-tier approach," individual determinations, and SEC Section 16 filings.
- **Companies use Multiple Attributes to Determine Eligibility**: 70% of respondents consider business unit size and complexity to determine eligibility. 55% (11 companies) of respondents have an objective means of distinguishing among business units. Of those companies, each utilizes multiple attributes (up to seven in one company) to objectively distinguish among their business units. The most common attributes used are revenue (11), functional breadth (11), number of employees (9), geographic reach (8) and profit (7).

There is some evidence of global convergence of executive compensation philosophies across companies, and of corresponding practices within companies. On the other hand, executive compensation practices still show significant variation across countries. The companies participating in the survey report that global consistency of executive compensation practice within company is important to their globalization efforts. It appears that the desire to achieve global "within company" consistency is trumping national compensation practices. Based on this report's survey and the Towers Perrin survey on stock options, it also appears that determination of executive compensation eligibility is not left to local discretion. Given the pattern of approaches reported, it appears that "within company" consistency is more important than "across company" consistency to leading global companies.

One global company (not one of the survey respondents) is profiled in detail within the report as a case study. The company uses two different approaches to determine executive compensation eligibility. In the U.S., base salary is the sole determinant (only one of the respondent companies utilizes base salary). Outside the U.S., the company uses revenue to determine company size and combines that with position responsibility to determine eligibility. As the company was extending its geographic reach and building global businesses/leaders, it found that the executive compensation plan was no longer aligned with the business strategy (vertical fit), nor was it aligned with other HR programs (horizontal fit) such as leadership development. As talent movement across national borders was increasing, inconsistencies among employees' compensation were becoming more apparent.

The company developed a "global banding" framework to create an objective and consistent method for determining executive compensation eligibility amongst its more than 150 business units of varying size and complexity. To account for the wide variation in business units, the global banding model considers the following three dimensions for executive, scope sensitive positions.

Scope: Is the organization responsible for delivering Enterprise, Business Sector or Operating Company results?

Business Environment: How big and complex is the business unit based on objective attributes such as revenue, number of employees, number of product lines, geographic reach and functional breadth?

Position Responsibility: Starting with the Business Unit Leader, where in the hierarchy of positions within an organizational unit does a specific position fall?

All three dimensions are assessed and form the basis for objectively and consistently determining executive compensation eligibility, and for slotting positions into executive compensation opportunity bands.

Based on the experience of the case study company, I believe that companies whose global executive compensation practices are not internally consistent may find that their programs are also not vertically aligned and may even be obstacles to achieving strategic intent. Lack of consistency among executives may have a negative impact on retention, contribution and deployment of global executives. But, it appears that companies, like the case study company, that are not aligned (vertically and/or horizontally) or have not implemented consistent program practices, plan to move in that direction. The global banding framework described in this report is flexible and is relatively easy to implement and, thus, holds promise for enhancing vertical fit, horizontal fit and consistency in executive compensation.

Executive Compensation Eligibility In Global Businesses: A Global Banding Approach

Introduction

Today, capital and ideas move across borders, in most cases unrestrained, at micro if not nanosecond speeds in search of the most productive opportunities. Executive talent with a global mindset is also being deployed across borders faster than ever. Extending geographic reach is one growth strategy many companies are employing. The need for greater market agility in ever-competitive markets requires quick deployment of specialized resources across borders.

Given that intellectual capital is almost as fluid today as financial capital, we must ensure that our HR systems are well suited to attracting, retaining and deploying talent across borders. Paradoxically, ethnocentric and parochial HR systems and policies inherited from the past that are focused on a single country may actually be barriers to the establishment of effective global organizational processes (Pucik, 1997).

For example, a major multinational corporation headquartered in the U.S., uses base salary to determine executive compensation eligibility for U.S. based executives and a revenue based sizing exercise for operations outside the U.S. As the company became more global the differences in compensation became an obstacle to deploying global talent. The inconsistent approach resulted in U.S. executives working for European executives who were one to two bands lower in executive compensation eligibility. U.S. executives were unwilling to take European assignments if their executive compensation opportunity was reduced. European executives were upset if the executive compensation opportunity for their American subordinates was higher than theirs.

Another problem exists with the salary-based approach to determining executive compensation eligibility. The U.S. thresholds for executive compensation eligibility must be adjusted every two to three years as market pricing drives base salaries up. When this happens, some executives fall out of the executive compensation program or down in opportunity bands. Two outcomes result- 1) impacted employees are upset, frustrated, loose motivation, disengage and some valued employees may even seek other opportunities, or 2) managers of impacted employees scramble to adjust the base salaries of their employees to avoid disturbing their eligibility. In the second case, base salaries are unnecessarily inflated, driving up operating costs.

The situation just described is not hypothetical but represents the current state in a global Fortune 100 Company. Inconsistent approaches to executive compensation eligibility are at odds with the strategic objective of extending geographic reach and developing global leaders. Lack of alignment between compensation systems and strategic intent (vertical alignment) may stand in the way of global talent deployment and may be unnecessarily driving up costs. The lack of horizontal alignment among the various HR practices (executive compensation, talent deployment and leadership development) not only undermines strategic intent, but sends confusing signals to employees.

This paper develops a rationale for global alignment of executive compensation systems, building a case for vertical alignment, horizontal alignment and global consistency of executive compensation eligibility. The results of a benchmarking survey of current practices used to determine executive compensation eligibility are reported. Finally, a case study of a major company's approach, referred to as "global banding," serves to illustrate a consistent approach to determining executive compensation eligibility.

Alignment & Global Consistency

Internationalization or increased global reach is creating pressure for greater consistency in compensation strategies (Gomez-Meija and Welbourne, 2000). One might expect just the opposite given the need to be sensitive to culture and local market differences between countries and regions. However, the convergence toward consistency is primarily at the philosophical or core levels. American pay for performance systems are rapidly being deployed in many parts of the world (Towers Perrin, December 2001). There is increasing evidence that the strategies to deliver pay are becoming more uniform from one country to the next. In a majority of the 22 countries studied in a recent survey, most large, local companies will have some type of Long Term Incentive (LTI) plan in place by 2003 (Towers Perrin, April, 2001). That same survey reported that in 15 out of 22 countries surveyed, more than 75% of companies are estimated to have LTI plans. Large U.S.-based companies have been expanding their LTI plans outside of the U.S. with a desire to motivate their global leadership teams (Towers Perrin, December, 2001).

However, a core global compensation philosophy or "global glue (Milkovich and Bloom,1998), does not necessarily translate into consistent national practice. For example, eligibility criteria for stock options varied dramatically between 22 countries in a recent survey (Towers Perrin, April, 2001). U.S. companies relied heavily on salary and to a lesser extent on position to determine stock option eligibility. Reporting level and management discretion were not prevalent criteria in the U.S. Italy relied heavily on reporting level and management discretion but the use of salary and position was not prevalent. Inconsistent practices between countries can present significant challenges for global companies desiring some level of consistent practice. Inconsistency from country to country may impact talent deployment. HR management (HRM) systems become difficult to align when there are cross-border inconsistencies.

As American pay practices are exported to different countries, global executives will expect consistent compensation practices between their cross-border peers in the same company and local executives working in other large companies. Global companies will have to respond in order to attract and retain the best global talent. Executive compensation eligibility will be viewed in this paper from three perspectives: 1) Vertical alignment, 2) Horizontal alignment, and 3) Global consistency.

A core compensation philosophy applied by a corporation on a global basis can be part of an overall HRM system that creates employee alignment with strategic intent (Milkovich and Bloom,1998). The core compensation philosophy must support actions intended to help the company win. Thus, compensation philosophy and practices must be consistent with and support business strategy. Consistency between the HR systems and strategic intent is referred to as "vertical fit" (Shafer, et. al., 2001, Wright and Snell, 1998). Additionally compensation systems must be consistent and synergistic with other HR programs within the overall HRM system. Congruence within the HRM system is referred to as "horizontal fit" (Shafer et. al., 2001, Wright and Snell, 1998).

Including those executives whose performance is likely to have a significant impact on achieving strategic business objectives in executive compensation programs may enhance vertical alignment. A company that intends to grow by extending its geographic reach may require executive talent pools to manage the greater complexities associated with cross-border operations. If extending global reach is a strategic objective, does the compensation system recognize those who are managing regional or global business units? Does the executive compensation plan enable deployment of executive talent in support of new global opportunities or is it a hindrance? In the case study example where two different systems were being used to determine executive compensation eligibility, the compensation plan was a hindrance to deploying talent and strategic intent. The case study company described later in this report had cross business unit collaboration as a strategic imperative. The executive compensation eligibility criteria were adjusted to include collaboration, enhancing vertical fit. Global executive compensation systems must be linked to strategy and be equally dynamic.

Horizontal alignment may be enhanced by ensuring that determinants of executive compensation eligibility are congruent with other HRM programs. For example, if the leadership development program recognizes key stages of leadership responsibility, ideally those stages will be incorporated into the executive compensation eligibility criteria. In the implementation example discussed later in this report, horizontal fit was enhanced by tying executive compensation eligibility determination with the leadership development framework being employed by the C*ompany*. If a company has adopted a job banding system, executive comp eligibility will ideally reflect that system. Integrated and/or complementary programs in a HRM system send clear signals to employees regarding company expectations.

As business complexity increases due to size, functional breadth and geographic reach, so does the need to develop consistent executive compensation practices across a broad executive constituency. But what exactly do we mean by consistency and to what extent does consistency need to be global? Is consistency a factor only across geographic borders or is it also important across business sectors within companies? What kinds of consistency frameworks exist in the HR literature to guide practitioners in determining executive compensation eligibility in complex global corporations?

One framework for deploying consistent HR practices (Baron and Kreps, 1999) describes three dimensions of consistency:

1) *Single-Employee Consistency,* much like horizontal fit, is concerned with ensuring that the different pieces of the HR system should be consistent and/or complementary with one another.
2) *Among-Employee Consistency* is concerned that Employee A treated in a particular fashion, is treated the same as Employee B in a similar situation. This form of consistent treatment is especially relevant to this report. For example, Employee A in a similar position in a similar operating entity within a complex global corporation should be eligible for the same general executive compensation eligibility (opportunity) as Employee B in the same situation. In a global company, this consistency should cross borders.

   Of 20 leading global companies surveyed for this report 19 apply consistent executive compensation eligibility criteria for their home country and international executives. One of the survey companies and the case study company apply different eligibility criteria for their home country executives and their international executives.

   There are at least two options to consider here. In the first option the executive compensation opportunity is literally the same across borders. An executive in the Philippines would be eligible for the same number of shares and the same cash bonus as their counterpart in the U.S. Of course in this example, the impact on personal income would be much higher for the executive in the Philippines as it would represent a larger percentage of base pay. The second alternative is to establish consistency as a percentage of base pay. This second approach would likely have a more consistent impact on personal income than the first approach. Tax treatment of executive compensation may also be a mitigating factor in determining consistency. The *Company* discussed in the implementation section of this paper chose to define consistency as a percentage of local base pay.

3) *Temporal Consistency* refers to consistency over time. How employee A is treated today should not be radically different than how they were treated in recent history. Any changes in the compensation system may be seen as disruptive to some and test perceptions of temporal consistency.

Among-Employee Consistency is desirable because it "diffuses invidious social comparisons and feelings of distributive injustice" (Baron and Kreps, 1999). People tend to resent it when people who they perceive to be like them (e.g. position and performance) are treated differently than they are especially better treatment for no apparent reason. In the case of the implementation *Company,* utilizing base salary in the U.S. and annual revenue outside of the U.S. as the eligibility determinant upsets *Among-Employee Consistency* when a European executive is two eligibility bands below their U.S. subordinate. Equity Theory suggests that one potential outcome resulting from this inconsistency is that the European executive may reduce their work effort or effectiveness (Bowditch and Buono, 2001). A second potential outcome is the European executive lobbying for their eligibility band to be adjusted upward. Acting on this second option compounds the problem by undermining Among-Employee Consistency between other executives in that same company/country. A third outcome is resistance to deploying global talent where it is needed, undermining vertical alignment. A fourth possible outcome is the European manager leaving the *Company* in hope of avoiding *Among-Employee Inconsistency*. Thus, efforts should be made to ensure *among-employee consistency*.

Equity Theory and most other motivational theories are based on Western culture. One of the conclusions of multi-level research has been that culture at the national level and culture at the organizational -- corporate culture -- are two very different phenomena and that the use of a common term for both is confusing (Hofstede 1993). The secret of multinational corporations is their ability to employ common corporate culture and practices that bind employees from extremely different national cultural values (Hofstede, 1993).

Culture (Hofstede, 1997) will likely have some impact on perceptions of fairness and *Among-Employee Consistency* in compensation. There are several questions regarding the extension of equity theory and consistency across cultures. For example in the "comparison to other" component of equity theory, collectivistic cultures are more likely to make comparisons to groups than in individualistic cultures (Kilbourne & O'Leary-Kelly, 1994). In cultures high on masculinity, individuals would consider individual effort and productivity to be important inputs, whereas in cultures high on femininity, individuals would feel that assisting co-workers and sharing information are important inputs (Kilbourne & O'Leary-Kelly,1994).

Though a strong case can be made for vertical alignment, horizontal alignment and consistency, achieving them, particularly consistency can present significant challenges to global compensation executives. Though there is evidence of global convergence of core compensation philosophy, implementation practices vary widely at the national level. The next section of this report will examine the current practices of 20 major global companies to consistently determine executive compensation eligibility for their global executives.

Current Practices of Global Employers

Background

When global compensation executives attempt to reconcile global convergence at the core or philosophical level with divergent implementation at the national level, inconsistencies are bound to arise. Given the potential negative consequences of *Among-Employee Inconsistency,* what are leading global companies doing to reconcile potential inconsistencies? Is it important to have consistent compensation philosophy and practice? Are companies deploying globally consistent corporate practices that trump local/national practice? If so what kind of practices are being employed to determine executive compensation eligibility? Or, are global companies leaving such practices for local determination and trying to manage the consequences of inconsistency? How might all of these complex global factors impact a company's ability to create vertical and horizontal fit with their compensation programs? A brief benchmarking survey was conducted to begin to answer these questions.

Sponsor companies of Cornell's Center for Advanced Human Resource Studies (CAHRS) were asked to complete a brief web based survey regarding the practices currently used to determine executive compensation eligibility. Twenty out of 55 sponsor companies responded to the survey (see appendix IV), including a cross section of industries (petrochemical, pharmaceutical, technology, financial services, manufacturing) and global companies.

Survey Objectives

The overall objective of the survey was to determine current practices employed by leading global companies to determine executive compensation eligibility for global executives. Additional objectives include the following:

1. Determine the extent to which companies are, internally, employing the same eligibility criteria for their home (HQ) country and international executives
2. Determine the types of systems that are being used to "level" global executives
3. Identify the attributes commonly being used to determine eligibility

Summary of Findings

Consistency between home (HQ) country and international operations was prevalent amongst respondent companies. Of the 20 respondent companies, 19 (95%) reported that within their own company, they apply the same scoping/leveling methodology to both their domestic and international operations. Additionally, 90% of respondents report that they use consistent target ranges on a global basis. Eleven (55%) of the respondents use an objective means for distinguishing between different business units all of which relied on multiple attributes, typically four to six. The most frequently used attributes were revenue (11), functional breadth (11) and number of employees (9).

"Within Company" Global Consistency is High

Of the 20 respondent companies, 19 reported they apply the same scoping and leveling methodology to both their domestic and international operations. This data suggests that global corporations are striving for globally consistent, "within company" philosophy and practices.

Scoping/Leveling Methods Vary

Figure 1 identifies methods used by respondents to scope/level leadership positions. Twelve (60%) use formal job evaluation systems and eight (40%) have adopted the use of consistent job titles. In addition to compensation, most companies are able to find broad application for their scoping/leveling framework (see Figure 2) including succession planning, talent sourcing, eligibility for leadership development programs, staffing and headcount control, and to assist with organizational design efforts. The complementary use and integration of these programs suggests that leading global companies are striving for horizontal fit.

Figure 1

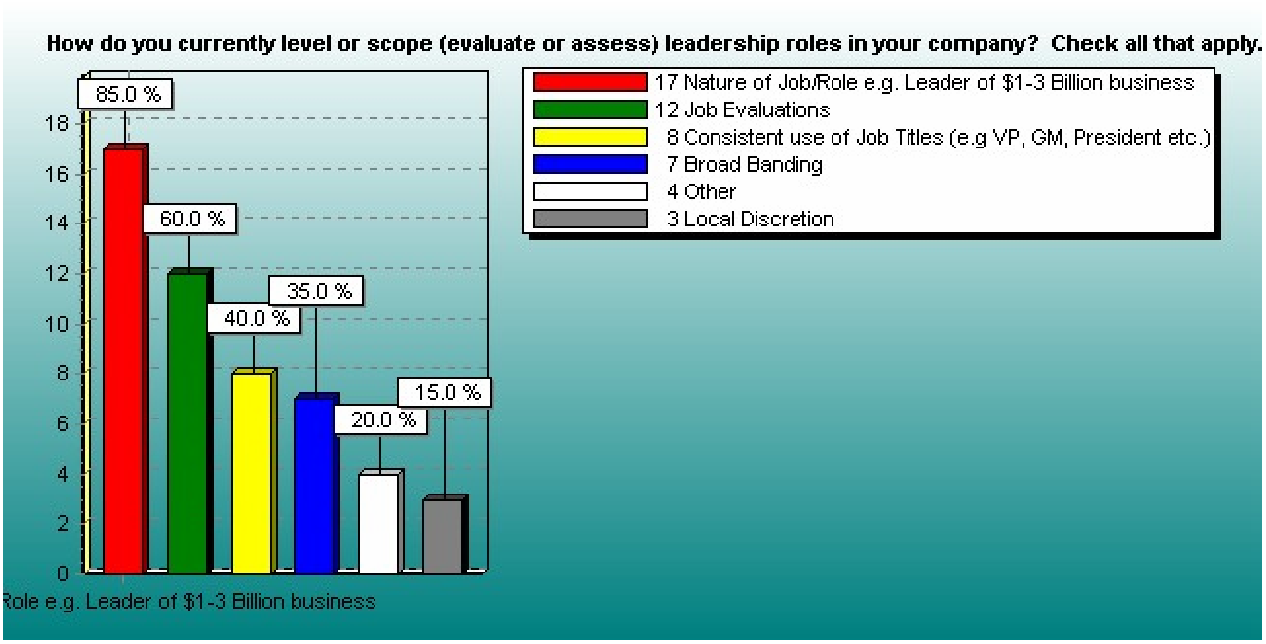


Figure 2

What other organizational value, beyond compensation applications, does your leveling (executive comp eligibility) approach provide? Check all that apply.

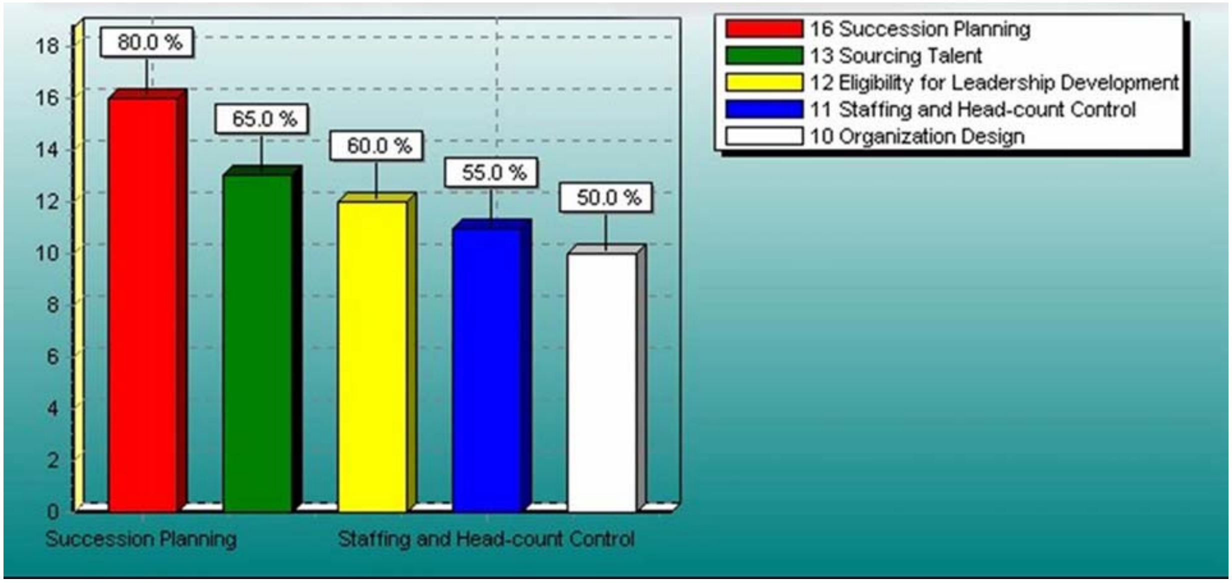
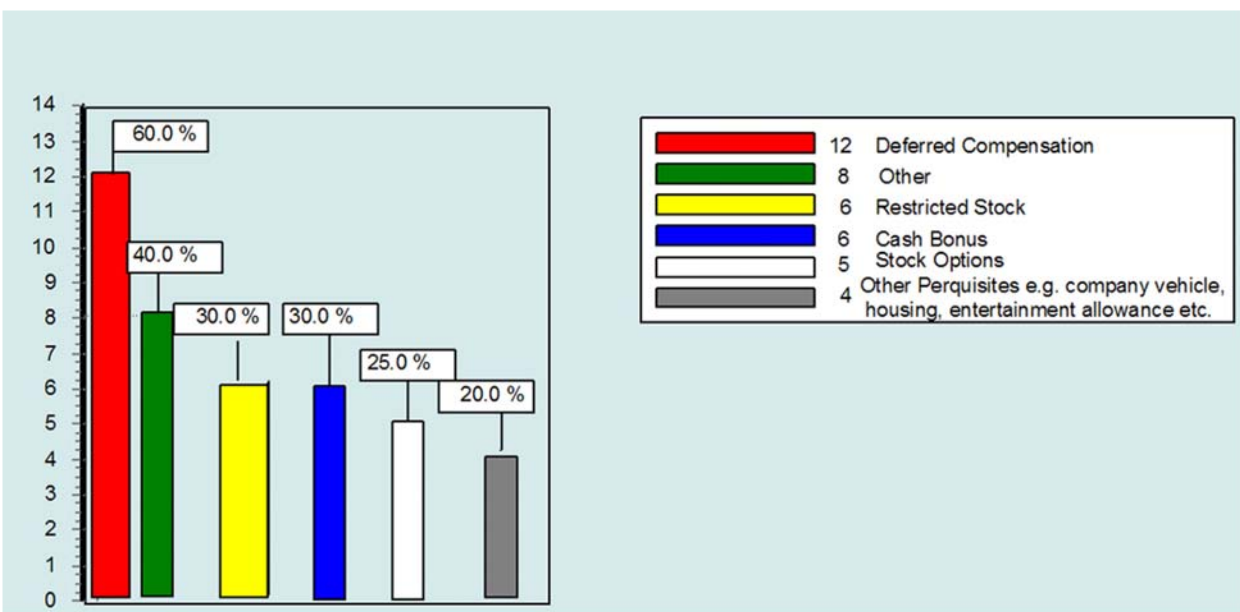


Figure 3

What is considered basic (at the threshold of eligibility) executive compensation in your company? In other words, when employees are first eligible for "executive compensation" in your company, what additional remuneration do they receive? Check all that apply.



Definitions of Executive Compensation Vary Between Companies but “Within Company" Consistency is High

Figure 3 describes what the respondents consider the "entry point" for executive compensation in their companies. Twelve (60%) of the respondent companies include deferred compensation as part of the threshold for executive compensation. Comments for the "other" category included financial planning, long-term disability insurance, executive life insurance, and executive health screening. Some commented their executive compensation thresholds include a higher level of options, bonus and base salary.

Though definitions of thresholds for executive compensation varied between companies, practices within individual companies were consistent between their HQ and international operations. Ninety percent apply the same criteria for determining executive compensation eligibility for their global HQ and their international operations (see Figure 5). Likewise 90% report using consistent target ranges on a global basis (see Figure 4). Consistent executive compensation practices "within" company" is high.

Figure 4

Do you apply the same executive compensation guideline TARGET RANGES (e.g. pay-out of bonus, stock options etc. as a % of base pay) on global basis, for the same eligibility levels**?**

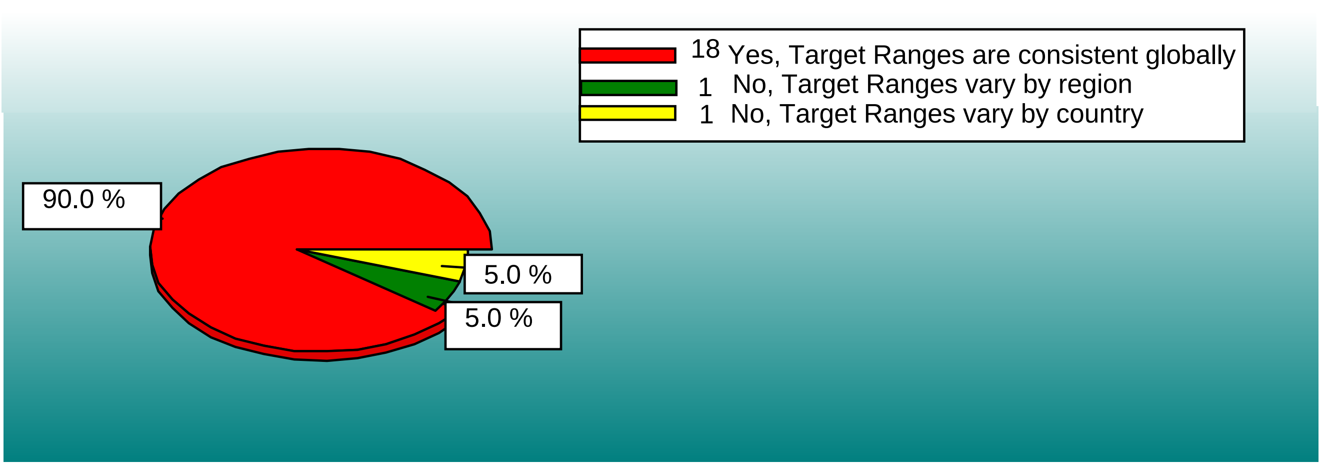


Figure 5

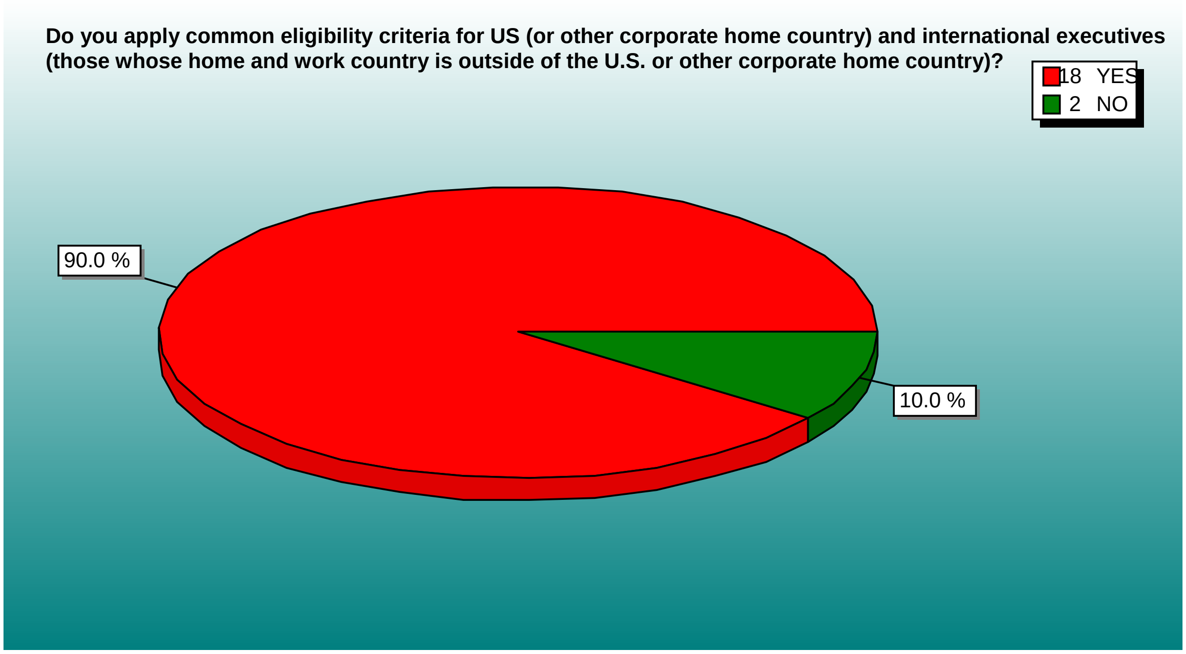
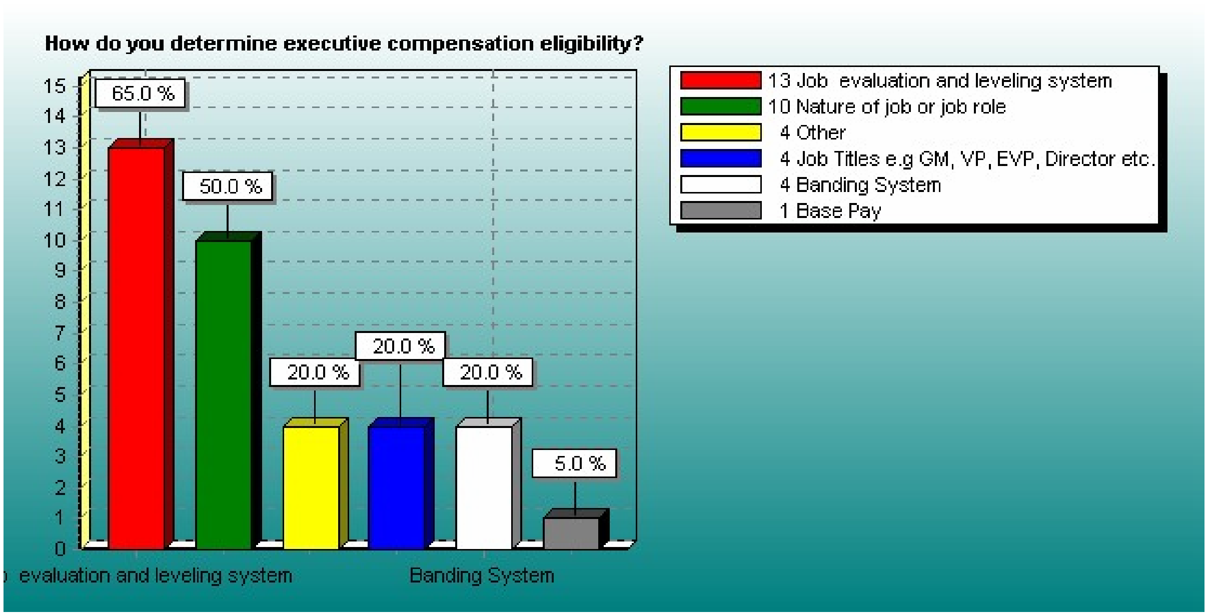


Figure 6



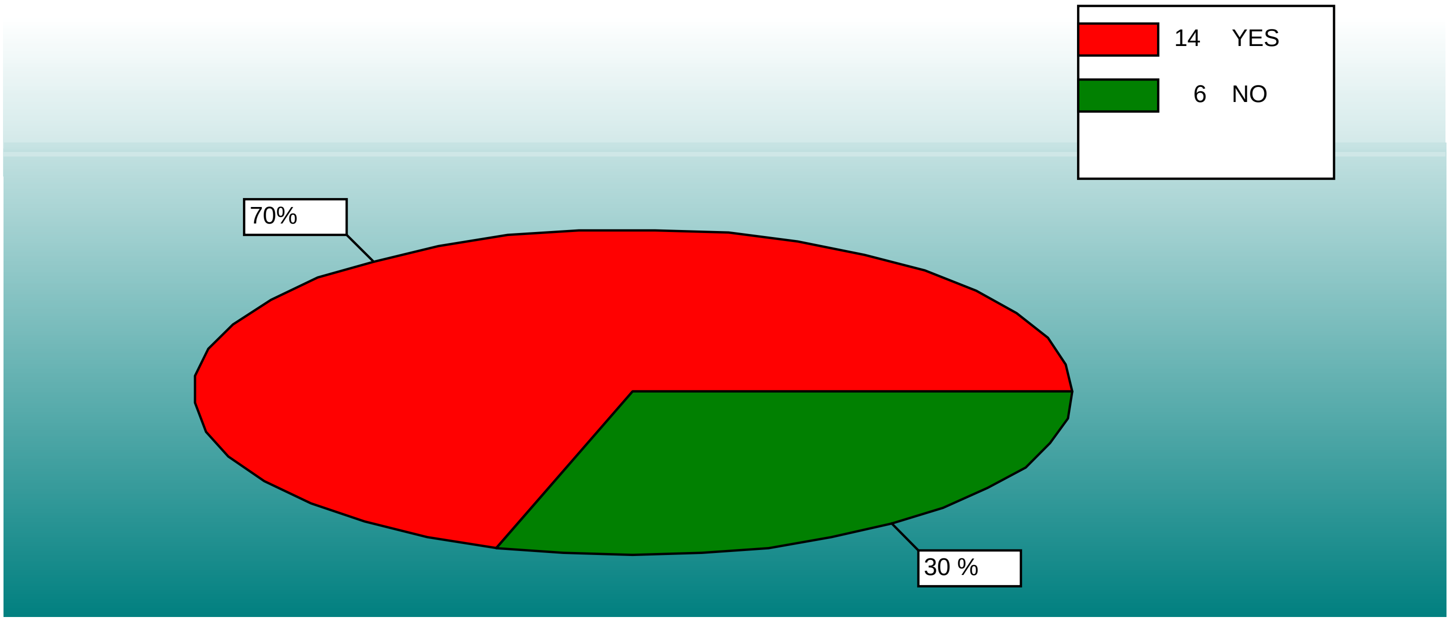
Compensation Eligibility Methods Vary Between Companies

Figure 6 identifies the various methods employed by the responding companies to determine executive compensation eligibility. Thirteen (65%) of respondents utilize a job evaluation system for their eligibility determinations. A job evaluation system may also result in job title consistency. Three of the respondents who use job evaluation also use consistent job titles. Four (20%) respondents have adopted a banding system for eligibility determinations. Four (20%) other respondents utilize the following "other" means for determining executive compensation eligibility:

- Organization structure and reporting relationships
- Tier structure, the company has eight tiers; the top four are eligible for executive compensation. This may be a variation on the organization structure mentioned previously and/or similar to a banding approach.
- Individual determinations
- Section 16 Corporate Officers, those corporate executives who have been identified in Section 16 filings (officers, directors, and principal stockholders) defined by the Securities and Exchange Act of 1934. For this particular company this would amount to approximately 12 executives.

Figure 7

Do you account for differences in business unit size and complexity when determining executive compensation eligibility?



Companies Use Multiple Attributes to Determine Eligibility

Of the 20 respondent companies, 14 (70%) consider business unit size and complexity in making executive compensation eligibility decisions (Figure 7). Eleven (55%) respondents reported that they had an objective means of distinguishing between business units. The respondent companies were then asked which attributes (from a list) they use to objectively distinguish between business units. The following is the rank order of attributes measured and the number of respondents (x) who use the attribute:

- Revenue (11)
- Functional Breadth (11)
- # of Employees (9)
- Geographic Reach (8)
- Profit (7)
- # of Products or Product Lines (3)
- Start-up (2) or Turn-around (2)
- Anticipated Compounded Annual Growth Rate (CAGR) (1)

Two of the respondents commented they use "complexity" and "lots of judgement" to make eligibility decisions. The comment regarding "lots of judgement" suggests less reliance on objective measures to achieve consistent results.

A more detailed analysis of the data proved quite interesting. Only 11 (55%) of the responding companies reported that they had an objective means for distinguishing between business units. Of those 11, each utilized *multiple attributes* (see list above) to make their determinations. One company utilized three attributes, four companies utilized four attributes, three companies utilized five attributes, two companies utilized six attributes and one company relied on seven attributes to make distinctions between business units and organizations. All 11 companies used revenue and functional breadth as key attributes to distinguish between business units, nine respondents also considered the number of employees.

Discussion of Survey Findings

The survey results shed much light on how leading global companies are reconciling converging philosophical approaches with implementation practices that vary between countries. The results suggest that global consistency is important at the implementation practice level, at least for determining executive compensation eligibility. Companies may not be willing to sacrifice vertical alignment by employing different practices in each country. The value of some global corporations' ability/need to easily deploy talent across borders likely outweighs the benefits of adjusting compensation practices country by country around a core philosophy. In addition, the business risks and costs resulting from *Among-Employee Inconsistencies* may be too high.

Though their individual approaches may differ, 90% of survey respondents are internally using a consistent approach for determining executive compensation eligibility for home (HQ) country executives and international executives. One other respondent commented that they are on a path to develop a globally consistent approach. In addition, 90% of respondents reported that they apply the same executive compensation target ranges on a global basis. One respondent commented they are consistent on a percentage of base pay basis. Another respondent commented that they are moving in the direction of consistent target ranges.

Only 55% of respondents reported that they had developed an objective means for distinguishing between business units. Those that do rely on a multitude of measurements/ attributes to gauge the size and complexity of their business units. In a complex global business environment revenue is important, but is not the only measure. Many use a composite mix of attributes to measure complexity.

Despite data from other surveys cited in this report (Towers Perrin, April, 2001) which describe country by country practice variations, **none** of the respondents rely on local discretion for eligibility determinations. These surveys are not conflicting though. The same Towers Perrin survey on global practices for stock options reports that discretion of local management is NOT a prevalent practice in any of the 22 counties in their survey.

The survey conducted for this report suggests that leading global corporations are very concerned with and taking steps toward both consistent global compensation philosophy and practice. The desire for corporations to have consistent global practice, at least with regard to determining executive compensation eligibility, appears to be trumping local/national variation in practice. That is not to say that there is no room for some local variation to accommodate or customize for local needs such as tax treatment of executive compensation.

Comparison of "Case Study Company" with Survey Findings

The next section of the paper will describe a framework one company plans to employ to create greater global consistency in determining executive compensation eligibility and enhance alignment (vertical and horizontal) of its program. The case study company (the *Company*) was NOT one of the survey respondents. Unlike 90% of the respondents, the *Company* uses two different internal approaches to determine executive compensation eligibility. In the U.S. the *Company* uses base salary is the sole determinant. Only one of the respondent companies utilizes base salary for their eligibility determinations. In the respondent company's case, base salary is one of several factors considered. Other factors reported were nature of job role, job title, and a banding system.

Outside of the U.S. the *Company* uses annual revenue as the primary factor to determine company size. Sizing is then combined with position responsibility to determine eligibility. The survey respondents who were using an objective means to distinguish between business units generally used four to six different attributes to distinguish. In contrast the *Company* relied on a single attribute.

The *Company* began to realign their business from national reach to regional and global business units. Extending geographic reach was one of their strategic objectives. Developing global leaders was another. The executive compensation plan was no longer aligned with the strategy (vertical fit), nor was it aligned with other HR programs (horizontal fit) such as leadership development. As talent movement across national borders was increasing, inconsistencies among employees were also becoming more apparent.

The next section of the report describes a framework the *Company* developed to realign its executive compensation program with its strategic intent, increase congruence with its other HR programs, and reduce inconsistent treatment among executives.

Global Banding Implementation

Company Description

This section of the report will describe an executive compensation eligibility framework that was developed for a large multinational corporation. The *Company* prefers to be anonymous. The description of the *Company* captures the essence of the company but retains its anonymity. The framework described was developed in 2003. It is scheduled for announcement when executive bonuses are paid in the first quarter of 2004 and will be fully implemented when bonuses are next paid in the first quarter of 2005.

The *Company* is a multi-national corporation. It is a conglomerate or a federation of over 150 companies, organized around 4-6 business sectors which generate over $30 billion in annual revenue. It employs over 100,000 employees in more than 50 countries. The corporation is fully integrated with in-house research, product development, manufacturing, sales and marketing, and distribution capabilities. Some of the operating companies themselves may be fully integrated while others may be strictly sales and marketing organizations. An operating company might include a sales and marketing organization with 50 employees, responsible for $U.S. 5 million of revenue in a small country, to a $2 Billion U.S. operation with 3,000 employees in R&D, sales & marketing and manufacturing roles operating in multiple countries. It is a very varied and complex organization. There is a strong set of values and policies that define and guide the federation. Compensation policy is one of those areas that is defined by the corporate office.

The *Company* uses leadership boards for executive level decision making. These boards exist at the operating company, business sector and enterprise levels of the *Company*.

In addition to the business unit leader, some function heads such as finance, HR and IT may be members of the leadership boards along with other senior line executives.

Different from 90% of the survey companies, the *Company* currently employs two different approaches to determining executive compensation eligibility; a U.S. approach and an international approach. In both cases, executive compensation is defined, at the lower end, as being eligible for stock options. The higher executive levels may also be eligible for Extra Compensation Awards (ECAs); deferred compensation and restricted stock awards designed to ensure retention of key executives.

The *Company* does not use a common job leveling approach such as job evaluation to level jobs. Consistent job titles are not used throughout the complex corporation. The *Company* has defined opportunity "bands" for executive compensation. Bands II through IX are currently used for executive compensation. Band II is the entry point and includes cash bonus and stock option awards. Employees below Band II may receive cash bonuses but are not stock option eligible. Stock option eligibility is the defining entry point for executive compensation at the *Company*. The highest band, Band IX, currently includes approximately 50 of the highest executives in the *Company*. Over 10,000 (14.7%) of the *Company's* employees are considered executive compensation (Band II or higher, stock option eligible) eligible today. The following is a brief description of the current methods used to determine executive compensation eligibility.

U.S. Based Executives

For U.S. based executives, executive compensation eligibility and opportunity (bands) are determined by base salary and position responsibility (manager and above). The current (2003) threshold (minimum salary) for executive compensation eligibility is $85,000. This threshold is the entry point for Band II, the starting point for executive compensation eligibility. Salary bands are established up to the maximum of Band IX (see appendix 1 for a description of the bands). As bands increase so does the associated opportunity for cash bonus, stock options and at the higher bands ECAs.

Advantages to the U.S. approach

- Ease of administration, bands are automatically triggered by base compensation
- Fair and consistent application, system is totally objective

Disadvantages to U.S. approach

- Market pricing requires that base salary thresholds be periodically adjusted. As base salary thresholds shift upward, some executives fall entirely out of the program while others may shift to bands with lower opportunities.
- As market pricing drives base salary threshold changes upward, some managers adjust base salaries to maintain the executive comp eligibility status of subordinates. This may unnecessarily inflate base salary upward. Across a large population this could significantly impact operating costs.
- Base salary driven eligibility is not necessarily linked to business contribution or aligned with the strategic intent of the business. In some cases, base salary may be the result of employment longevity or past contribution and does not reflect current or potential future contribution to *Company* success.

International Based Executives

The *Company* has over 150 business units (companies/affiliates) around the world of varying size and complexity and its world headquarters is located in the U.S.. Currency differences and exchange rate fluctuation between the US and other currencies suggest that using a global base salary approach would at best be challenging and at worst create inequitable treatment between international business units based on factors outside of their control. As a result, international (excluding the U.S.) executive compensation eligibility and band assignments are based on business unit size and position within the organization. Business unit size is determined primarily based on revenue measured in $US. Business units are categorized as A (lowest revenue), B, C, D (highest revenue). Categorizing them based on their revenue contribution to the *Company* is the starting point for differentiation between the business units. However there is significant overlap of the revenue ranges and the classification of businesses may not be as objective as it appears on the surface. Likely other implicit factors such as complexity and number of employees are considered when making business unit size decisions. Unless such factors are explicit, consistency and objectivity may be compromised.

Advantages to the international approach

- Provides a general framework that can be applied across the *Company's* many global business units
- Uses organizational position (vs. salary) to begin to differentiate contribution

Disadvantages to the international approach

- Over relies on revenue to differentiate business units, may overlook other factors which could increase vertical alignment
- Little or no consideration for currency fluctuation in company sizing. Since the sizing is based in $ U.S., a country's currency could be significantly devalued and a company could fall from a C to an A size company between annual sizing cycles. The reverse is also possible.
- If not consistently applied, the use of additional implicit factors in determining company size may compromise consistency and objectivity

Disadvantages of current U.S./International approaches

The U.S./others binary approach to executive compensation eligibility may stand in the way of global movement of talent. This first became evident in the *Company* with the formation of the Global Research Division (GRD). Research need not live within the geographic constraints of product markets. As a result, U.S. researchers, on the base salary driven executive compensation system, might be reporting to European managers on the company size executive compensation system that were one to two bands below their U.S. based subordinates. This creates *amongst-employee consistency* issues that could inhibit the deployment of global talent, impact executive retention, result in adjustments to one executive's eligibility that could trigger a series of compensation related amongst-employee inconsistency issues, or result in reduced executive effort and effectiveness. In addition, international *Company* executives may be left to believe that their contribution is not valued as much as their U.S. counterparts.

Modifying the approach to determining executive compensation eligibility to ensure that it is better aligned with strategic intent, congruent with other HR programs and consistent globally, is a critical step in the *Company's* efforts to successfully extend its geographic reach and develop global leaders.

Global Banding Framework

This section is devoted to describing many of the details of the global banding framework. It is important to note that this framework was vetted with and refined by compensation and HR executives from numerous business units and geographies within the *Company*. A develop, test, solicit feed-back and refine loop was used several times. Numerous individual and group conference calls were made to refine the framework and build broad consensus in support of it. The details of the refinement process and consensus building though critical, are not the subjects of this paper. It is equally important to note that successful implementation of a program of this magnitude will require an effective communications and change management program, the details of which are not described in this paper.

Objectives of the Global Banding Framework

Varying business unit size and complexity, inconsistent use of job titles, the absence of a common job evaluation and leveling system and the *Company's* unique organizational structure (affiliates, business sectors, operating company leadership boards etc.) present some unique challenges to developing a global banding system. Several objectives were considered in the development of the global banding framework:

- An approach that reflected the core philosophies of the *Company* and was flexible enough to respect differences in regional/national/local markets.
- A framework that could be used across all of the *Company's* global business units
- A framework that is simple to use and would produce consistent results
- Ideally use the same or fewer number of executive comp eligibility bands
- A program that is cost neutral or possibly reduces costs (cost reduction was NOT an objective)

- A program that supported the *Company's* business strategy and was aligned with existing HR imperatives and related programs
- A program that recognized the *Company's* uniqueness
- A program that facilitated movement of talent across geographies, markets and operating groups, or at a minimum was not a barrier to global talent movement

Three Dimensions

The global banding framework described below was developed to replace the binary (U.S./others) systems previously described. The framework relies on a three dimensional assessment to determine executive compensation eligibility bands. This analysis focuses on “scope sensitive” leadership positions, typically beginning at the director (manager of managers) level and progressing to the business unit leader. The three dimensions, described below are *scope, business environment and position responsibility*. These dimensions are relatively easy to assess and are ideally evaluated in the same order in which they are described.

Scope

Scope is used to determine the maximum band level for business unit leaders. Scope recognizes breadth of responsibility and potential impact on the *Company's* success. There are three levels of scope:

> **Enterprise/Corporate:** This scope is for positions that have enterprise wide responsibility. Those with enterprise-wide business unit leadership positions have responsibilities that traverse all business units and geographies. At the highest levels these would include the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Chief Administrative Officer, etc. The *Company* utilizes an Executive Committee to assist with steering the company. In addition to the "C" level positions previously described, the business sector heads sit on the executive committee as do a handful of functional heads (e.g. HR, Legal) with enterprise wide responsibility. These dozen or so business unit and functional heads who sit on the Executive Committee are included in what is called the Executive Committee Member (ECM) or Band IX (see appendix I for a description of the bands and a comparison between old and new banding nomenclature). Other members of the corporate staff (e.g. corporate officers, other staff heads etc.) are slotted in executive compensation bands based on the scope of their

responsibilities and their position responsibilities such as Function Heads, Sub Function Heads and Directors.

Sector/Franchise/ Region: This scope tends to aggregate business units, companies or affiliates. Those few leaders that oversee the four to six Business Sectors are automatically slotted into Band VIII, the Business Sector Leader Band. Others that fall in this general scope have responsibilities that typically span multiple companies, multiple countries or a single company/franchise which has global reach. The breadth of responsibility of Franchise Heads, International VPs, Regional VPs and Area Managers is aggregated and assessed using the business environment-rating tool that results in slotting below Band VIII.

Executive staffs of Sector/Franchise/Region business unit leaders who are NOT business unit leaders, will be banded based on their position responsibility within the business unit they support. The highest band for Leadership Board staff function heads reporting to Business Sector Leaders, IVPs, Franchise Presidents etc. is Business Leader 3 Equivalent (Band VI).

Business Unit/Company/Affiliate: These are the operating business units or companies. Some are fully integrated operating units while others may consist of sales and marketing only, R&D only, manufacturing only, or any combination. There is typically a business unit leader with profit and loss responsibility, with functional heads reporting to them. The business environment guide is used to assess the business unit and help to determine the executive comp band for the business unit leader. From there, the position responsibility guide is used to determine the executive compensation eligibility bands for the other executives in the organization. Business Unit Leaders can be slotted in Business Unit Leader Bands 1-4 (Bands IV-VII). Once the Business Unit Leader's band is set, the bands for other executives in the organization will be slotted based on their position responsibility relative to the business unit leader. Position Responsibility will determine the bands of other executives who may range from Business Leader 3 equivalent to Sub-Function Heads or other director level positions. Appendix V shows the band distribution of the three levels of scope. Overlap does exist between the levels of scope as pictured in Appendix V.

Business Environment

Every business unit within the *Company* is unique in some way and each varies in size and complexity. Business units may range from a sales operation of 40 employees operating in a single country with $18M in annual revenue, to a fully integrated business unit (sales, marketing, manufacturing, distribution and R&D) with 4000 employees and over $U.S. 1.5B in annual revenue. Similar to the survey findings previously described in this report, the framework relies on multiple factors to distinguish between businesses. The Business Environment Rating objectively evaluates six to eight attributes related to business size and complexity. The multiple attributes were selected to capture an array of size and complexity factors that could be used to distinguish one business unit from another. Values of the individual attributes are aggregated to create a total value (Business Environment Rating). Business units are placed in Business Environment Categories 1 (smaller, less complex business environments) through 4 (larger, more complex business environments).

A Business Environment Rating Guide/Tool has been developed (See Appendix IV) to assist with these evaluations. The attributes used in the evaluation will likely be applicable for other companies and are similar to those reported by the survey respondent companies. Attribute *values* may need to be adjusted to meet the unique situations of other corporations that may wish to utilize this general framework. The values adopted for this particular implementation of the framework represent the art portion of the art and science of compensation design and administration. The values were derived through several stages of refinement.

Readily available data (e.g. revenue, # of employees etc.) for the operating companies was used to begin modeling the distribution of the operating companies using the business environment rating guide. There was no conscious effort to create a normal distribution of the operating companies. The emphasis was on looking for natural breaks in the data which clustered operating company ratings consistent with the general internal perception of those companies. A Global Banding Taskforce which consisted of HR and compensation representatives from a broad cross section of business sectors and geographies played a critical role in validating the data, attribute values, and outcomes. Almost 100 operating companies were evaluated using the business environment rating guide. With the data readily available one can complete the business environment rating guide in about 15 minutes. Since the business environment rating guide uses broad brush strokes, absolute precision of data is not critical.

Business Environment Ratings are done at the *Company* and affiliate scope level and are also completed for regional International Vice President (IVP) positions. For regional (IVP) business units, attributes are aggregated across the scope of the business. For example, the Asia Pacific Region business unit (any group) would aggregate the revenue, # of employees, functional breadth and geographic reach for the regional business unit when conducting the evaluation. The following are detailed descriptions of the attributes considered in the Business Environment Assessment:

Revenue: Annual Revenue, is consistently reported in $ U.S. Though currency exchange rates may fluctuate, revenue is one of five or more attributes used in evaluating the business environment. When evaluating manufacturing operations, net trade sales may be the best measure of financial impact (revenue) on the business.

Employees: Only the *Company*'s employees (excludes contractors and third parties) are included in this count. Like revenue, prior year-end employee counts should be used.

Product Lines: The terms "product" and "product line" were not consistently used or tracked across the *Company*'s groups and business units. As a result, a general definition, complemented by examples, and applied with good judgment was used. Increasing the number of product lines adds to the complexity of managing the business. The intent of including this attribute in the business environment evaluation is to recognize these complexities and distinguish between those managing a few products and those managing many products.

There is so much potential variation in definition here between industries and companies that each company may need to develop their own definition.

Geographic Reach: Extending business reach across country boundaries adds complexity to the business. Regulatory approvals, market specific marketing plans and packaging, culture and language challenges, new distribution challenges, currency exchange, unique compensation and benefit programs etc. all contribute to the challenges of conducting business in multiple countries. Clearly those that are managing regional and global business units are dealing with challenges not faced by those operating in a single country. Because of the size and importance of the U.S. market, it is given a rating equivalent to managing multiple countries. Products being sold through a third party or *Company* affiliate in another country does not constitute extended geographic reach. Since extending geographic reach is one of the *Company*'s strategic imperatives, recognizing those who are managing businesses in multiple countries enhances vertical alignment.

Functional Breadth: Functional breadth along with annual revenue, were the most frequently used attributes cited by survey respondents to distinguish between business units. The range of the c*ompany's* business units includes those responsible for a single functional area such as Sales or Sales & Marketing, through fully integrated business units that include Sales & Marketing, Manufacturing/Operations, Research & Development and Distribution. Though there are other functional areas such as Finance, Human Resources, Information Management, Quality, Government & Regulatory Affairs, etc. these are generally considered core functions and not given additional credit in the Business Environment Rating evaluation. The following functional areas, up to a maximum of three, are considered in the evaluation:

> **Sales or Sales & Marketing**
>
> **Manufacturing/Operations**
>
> **Research & Development** must be a significant function focused on bringing new products to market. The R&D function should typically include >5% of employees in a business unit and >5% of the expense budget. This is a somewhat arbitrary guide which may need to be adjusted for different situations. Even so, a guideline should be established to ensure that some minimum criteria is met.
>
> **Distribution** must include a major distribution operation supporting the U.S. or multiple countries, typically with more than 100 employees. This value is also arbitrary and should be evaluated by any company considering implementation of this framework.

Start-up: Either through organic growth or through acquisitions, the *Company* may choose to invest in business units that may have high future revenue potential if properly nurtured. These high growth opportunities often start out as smaller (revenue and employees) business units with a unique set of challenges. Start-ups are not Sales & Marketing only companies. To be considered a start-up, the business unit must be developing their own products and be responsible for manufacturing (in house or contract) their products. Generally speaking, a start-up will be working on a business plan projecting a five-year revenue compounded annual growth rate (CAGR) of over 30%.

Turn-Around: At times, new management teams may be assigned to under performing business units. Like start-ups, turn-arounds present unique challenges that should be recognized. A business unit should not be recognized as a turn-around for more than three consecutive years.

High Business Collaboration: One of the *Company's* four strategic business imperatives is to increase collaboration between its operating companies. The intent is to bring greater value to the marketplace by identifying new markets, jointly developing new products, bundling products from different businesses together to solve a problem, or increase operating efficiencies. Though all of the *Company's* businesses are in one way or another dependent on each other, it is the type of collaboration described above which is recognized by the framework. This would be an example of increasing vertical alignment,

Position Responsibility

The focus of this dimension is typically the top two to four layers of the management hierarchy. In a smaller organization of 100 or fewer employees, this may include only one to two layers below the business unit leader. Larger organizations of 1000 employees or more may include scope sensitive, executive compensation eligible positions that are three to four layers below the business unit leader.

After identifying the scope and evaluating the business environment for business unit, band slotting begins with the Business Unit Leader. Appendix III, Global Banding Framework, provides an overview of the process. The leader of a business unit with a Business Environment rating of 4 would slot into the Business Unit Leader 4 (BL4) band. This would be the starting point for evaluating the rest of the executive scope sensitive positions in that organization. Likewise, the leader of a business unit with a Business Environment Rating of 2 would slot into the Business Unit Leader 2 (BL2) band and their executive staff would begin to slot below that band. The position responsibility guide is then used to slot executive positions supporting the business unit and its leader.

The uniqueness of select corporate functions, such as a Research Division may not require the use of the business environment rating guide. An organization like research which may not have the same kind of attributes as those identified in the Business Environment Rating Guide, may develop their own unique position responsibility framework. The following is a brief description of the position hierarchy:

Business Unit Leader: In most cases, this will be the General Manger responsible for the profit and loss (P&L) for a designated business unit. These individuals will typically have a series of operational and support functional heads reporting to them. They may lead a formal Leadership Board. Job titles may vary in different parts of the world and would typically include International VPs (IVPs), Presidents, Managing Directors, General Managers, Area Managers and Country Managers.

Leadership Board: This is a formally designated and *Company* recognized group, comprised of some or all of the functional heads (see below) reporting to a business unit leader. Not all function heads may be appointed to the Leadership Board. For example, the functional head of IM may be on the Leadership Board at one business unit but not at another business unit. This may be due to the strategic role IM may play at one versus the other. In the case of the IM head not on the Leadership Board they may be considered a Function Head within their business unit.

Function Head: Depending on the size and complexity of the business (business environment rating), job titles may vary but typically include the title prefix of Director or Vice President. Functional areas may differ between *Company* businesses. Core functions include Sales, Marketing, R&D, Manufacturing/Operations, Finance, HR, IM, Regulatory Affairs, Quality Assurance, Supply Chain etc. Typically functional heads report directly to business unit leaders and have two or more levels of organizational hierarchy below them.

If a Functional Head is a member of the business unit's leadership board, this level in the position hierarchy is typically skipped over. For example, if the business unit has a VP of Finance who is a member of the Leadership Board, that VP would be slotted based on their position responsibility of Leadership Board. If that same VP has a Director of Finance or Controller reporting to them, those positions would be considered sub-functions and the Function Head position responsibility would be skipped.

Sub-Function Heads and other Directors: Many functions will traditionally have sub-functions. Sub-functions may be defined as disciplinary specialties, product or customer segmentation, or geographic reach. Typically sub-function heads will have director titles and have two or more organizational levels reporting to them. They are usually managers of managers. The VP of HR may have a Director of Compensation and HR Directors supporting segments of the business reporting to them. These positions reporting to the VP may be considered sub-function heads. A Controller, reporting to a VP of Finance, may be considered a sub-function head. A Marketing VP may have Media Relations, Advertising, Market Communications or other directors, reporting to them as sub-function heads. Marketing may be organized around product categories and the VP of Marketing may have Marketing Directors managing product categories that may be considered as sub-function heads.

The global banding framework does not address positions below sub-function heads that are not considered scope sensitive positions.

Governance

Once the initial global banding exercise has been completed, the bands should be quite stable and require change only when positions change or when major reorganizations occur. Likewise, the related business environment rating is likely to remain stable excluding major organizational changes. Governance procedures should be established to ensure consistent application of the global banding guidelines across the entire enterprise. Routine decisions regarding banding can be made locally. However, some exceptional situations may require broader review and approval.

Conclusion

The challenges faced by global compensation executives today go far beyond compensating expatriates. Searching for new growth, corporations extend their geographic reach to new markets and quickly adjust their strategy as the competitive landscape changes. Global executives are quickly deployed to new countries to build and lead new businesses. HR and compensation executives seeking to align their programs and systems with strategic intent must be just as agile as the businesses and global executives they support

There is some evidence of global convergence of compensation philosophy between companies and practices within companies. On the other hand, executive compensation practices still show significant variation among countries. The companies participating in the survey report that global consistency of executive compensation practice within company is important to their globalization efforts. It appears that in order to achieve global "within company" consistency that company practice is trumping national compensation practices. Based on this report's survey and the Towers Perrin survey on stock options, it also appears that determination of executive compensation eligibility is typically not left to local discretion. Given the variation of approaches taken by companies to achieve "within company" consistency it appears that "within company" consistency is more important than consistency with other leading global companies.

Though the number of survey respondents was small, there is evidence that global companies are relying less on base salary as a determinant of executive compensation eligibility. This finding is at odds with the Towers Perrin survey on stock options which found that salary was the most common guideline used to determine stock grant levels in the U.S., UK, Germany, Canada, Spain and Malaysia.

Based on the experience with the case study company, I believe that companies whose global executive compensation practices are not internally consistent may find that their programs are also not vertically aligned and may even be obstacles to achieving strategic intent. Lack of consistency among executives may have a negative impact on retention, contribution and deployment of global executives. Those companies, like the case study company, which may not have aligned (vertically and/or horizontally) or implemented consistent program practices, plan to move in that direction. The global banding framework described in this report is a flexible and easy to implement approach that holds out the promise of enhancing vertical fit, horizontal fit and consistency among executives.

Appendixes

Appendix I: Global Band Descriptions

Global Band Descriptors: Previously a numeric band designation of II – IX was used to describe executive compensation eligibility and opportunity. The global banding program also uses eight bands and adopts a nomenclature based on “anchor descriptors” and utilizes an equivalency concept. For example, the anchor descriptor for what may have been previously described as band VI is now referred to as Business Leader 3 (BL3). From an equivalency point of view this band describes not only the Business Leader of a high complexity business, but may also be used for some IVPs and for Leadership Board members of very high complexity business units (company, region, franchise etc.). Even though bands may be the same or close, they only define opportunity. Base salary and performance differences are also key factors that have a significant impact on executive compensation “pay-out”

ECM, Executive Committee Member, (9): This band only includes members of the Executive Committee. The Chairman/CEO and Vice Chairman/President are not assigned to a band for executive compensation purposes.

BSL, Business Sector Leader (8): This band consists of Business Sector Leaders and Corporate Officers who are Functional Heads with global enterprise wide responsibilities.

BL4, Business Leader 4 (7): This band consists of some International VPs, Business Unit Leaders and Area Managers leading very high complexity business units (Business Environment 4). Corporate Function Heads with enterprise wide responsibility who are NOT Corporate Officers also fall into this band.

BL3, Business Leader 3 (6): This band consists of some International VPs, Business Unit Leaders and Area Managers leading high complexity business units (Business Environment 3). Corporate Sub-Function Heads with enterprise wide responsibility who are NOT Corporate Officers also fall into this band. Function heads who are on the Leadership Board of very high complexity business units (region or affiliate) fall into this band.

BL2, Business Leader 2 (5): This band consists of Business Unit Leaders of medium complexity (business environment rating 2) business units. Function heads who are on the Leadership Boards of High Complexity companies may also fall in this band as will non-leadership board Function Heads of Very High Complexity (Business Environment 4) companies.

BL1, Business Leader 1 (4): This band consists of Business Unit Leaders of lower complexity (business environment rating 1) business units. Some of these business unit leaders may be acting strictly in a sales capacity, without traditional functional staffs reporting directly to them. These leaders may be referred to as country managers in some regions. Function heads that are on the Leadership Board of Medium Complexity companies may also fall in this band as will Non-Leadership Board Function Heads of High Complexity (Business Environment 3) companies.

FHD Function Head (3): Generally speaking, function head refers to the leaders of staff and line organizations. Staff function heads include Finance, Human Resources and Information Management. Line functions include Operations, Sales, Marketing, Regulatory Affairs, Research & Development, Quality Assurance etc.

SFH Sub-Function Head (2): Most “functions” have sub-functions or sub-specialties. For example marketing communications would be a sub-function of marketing. The Controller would be a sub-function head in the Finance function and Compensation would be a sub-function of Human Resources. Other directors (managers of managers) may be included in this band if not otherwise characterized.

Global Banding Framework	
Old Band	**New Band Equivalent Titles**
II	**Sub-Function Head (SFH)**
III	**Function Head (FHD)**
IV	**Business Leader 1 (BL1)**
V	**Business Leader 2 (BL2)**
VI	**Business Leader 3 (BL3)**
VII	**Business Leader 4 (BL4)**
VIII	**Business Sector Leader**
IX	**Executive Committee Members (ECM)**

Appendix II: Global Banding Framework

Scope / Environment / Responsibility

BANDS

SCOPE	ENTERPRISE	GROUP/ REGION	COMPANY	COMPANY	COMPANY	COMPANY
ENVIRONMENT			Very High 4	High 3	Medium 2	Low 1
ECM	Executive Committee					
BSL	Corporate Officers	Business Sector Leaders				
BL4	Function Heads* FHD	WW Business Sector	IVP, BL			
BL3	Sub-Function Heads* SFH	Regional LB	LB	IVP, BL		
BL2			FHD	LB	BL	
BL1			SFH	FHD	LB	BL
FHD			DIR	SFH	FHD	LB
SFH			DIR	DIR	SFH	FHD

* With global, enterprise wide responsibilities
** LB is the Leadership Board

Appendix III: Business Environment Rating Guide

Business Environment Rating Guide*

Values	1	2	3	4
Rev	<50MM	50-499MM	500MM-1B	>1B
EEs	<100	101-499	500-1000	>1000
Product Lines	<6	6-25	>25	
Geo Reach	Country	US or multiple countries	Global	
Function Reach	S&M	S&M +	S&M ++	
Start-up, High Business Collaboration, Turn around	YES			
Total Value	<8 BL1	8-10 BL2	11-13 BL3	>13 BL4

* Attributes equally weighted

Appendix IV CAHRS Survey Respondents

Aetna

Bristol Meyers Squibb

Capital One

Chevron Texaco

Citicorp

Corning

Dupont

Eaton

Gap

General Electric

Lincoln Financial

Lucent

Monsanto

Microsoft

Northrop Gruman

Novartis Consumer Health

Shell

Sun Microsystems

Starbucks

Xerox

Appendix V: Bands and Scope

Business Level Banding Maximums

Corporate/Enterprise

V	VI	VII	VIII	IX
IV	V	VI	VII	VIII
III	IV	V	VI	VII

Business Env

Company/Affiliate

III	IV	V	VI	VII
II	III	IV	V	VI
I	II	III	IV	V

Sector/Franchise/Region

IV	V	VI	VII	VIII
III	IV	V	VI	VII
II	III	IV	V	VI

Position Responsibility

Scope Overlap

V	VI	VII	VIII	IX	Corporate/Enterprise
IV	V	VI	VII	VIII	Sector/Franchise/Region
III	IV	V	VI	VII	Company/Affiliate
II	III	IV	V	VI	Company/Affiliate
I	II	III	IV	V	Company/Affiliate

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