Aon Hewitt
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Lessons from Copenhagen: Getting Incentive Compensation Right across Global Markets

We recently connected with HR leaders working in the Nordic biopharma scene to learn more about their top challenges and how they tackle regional pay issues across Europe and the US

Business is booming in the Nordic life sciences market, making this an exciting time for innovation, initial public offerings and employment prospects across the region. Of course, every boom has its downsides, including managing rapid workforce change and keeping up with increasingly competitive, well-funded peers. We recently discussed these challenges with HR and rewards professionals working at leading biopharma companies in and around Copenhagen, Denmark at our meeting for clients in the region.

For our Danish life sciences clients, their top challenges include managing high employee turnover, balancing the priorities of an increasingly global and mobile workforce against the region's more egalitarian rewards culture, keeping their workforces engaged, and hiring key talent needed to fuel growth.

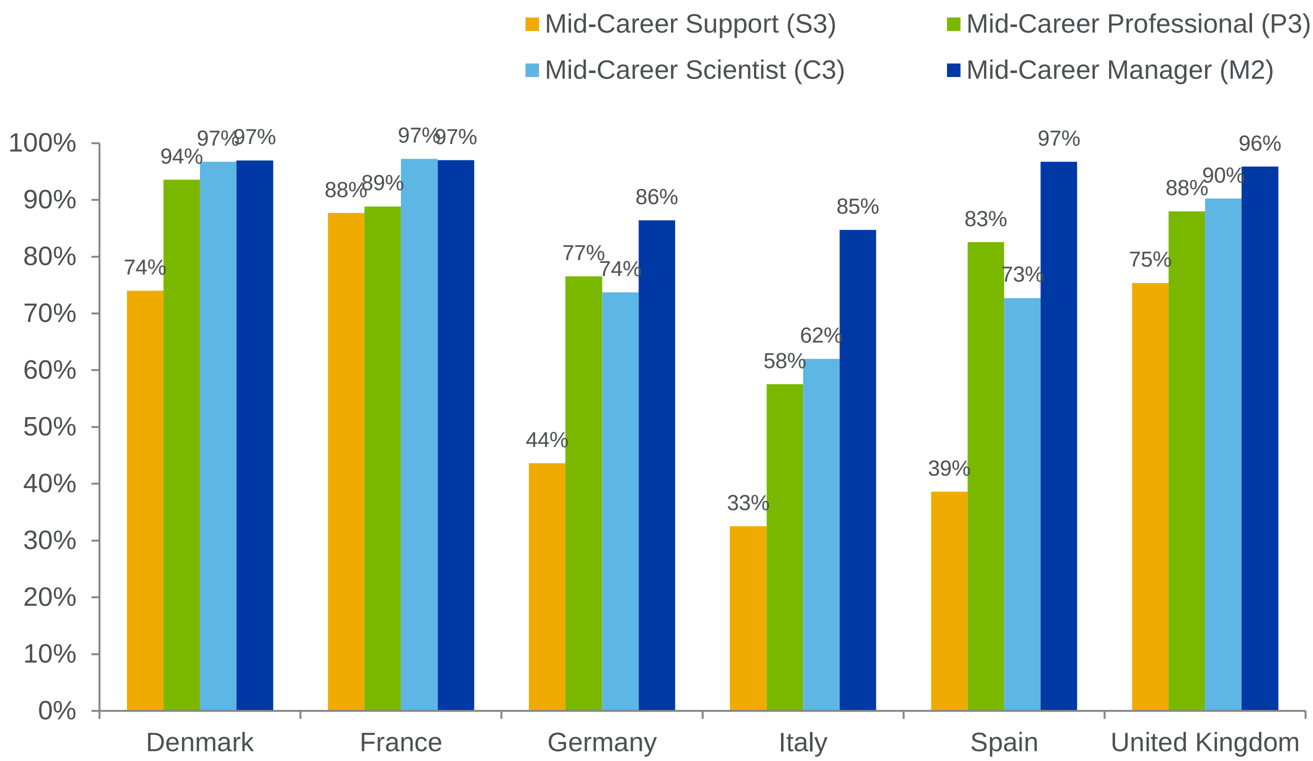
In particular, a large portion of our discussion focused on the growing importance of short- and long-term incentives for employees. As more Nordic-based life sciences companies begin to expand into other parts of Europe and the United States (US), they are worried about the competitiveness of their incentive practices. For example, while bonus plans are common in Denmark, both eligibility and award values are less differentiated than in other parts of Europe and the US. Furthermore, some of the attendees said their bonus plans aren't really driving the right type of performance. For example, bonus plans in the region can be overly complex, with too many metrics to drive meaningful action on any one key goal. Finally, for the broader employee population, they question whether bonus opportunities are big enough to drive exceptional performance.

To follow-up on the themes raised at our meeting in Copenhagen, we decided to review some of our latest data from the **Radford Global Life Sciences Survey**.

Short-Term Incentives

We'll start by examining short-term incentives. In our experience, there are some notable differences between Denmark and other key European life sciences markets, especially when it comes to employee eligibility. In the chart below, we compare Denmark to five other key markets:

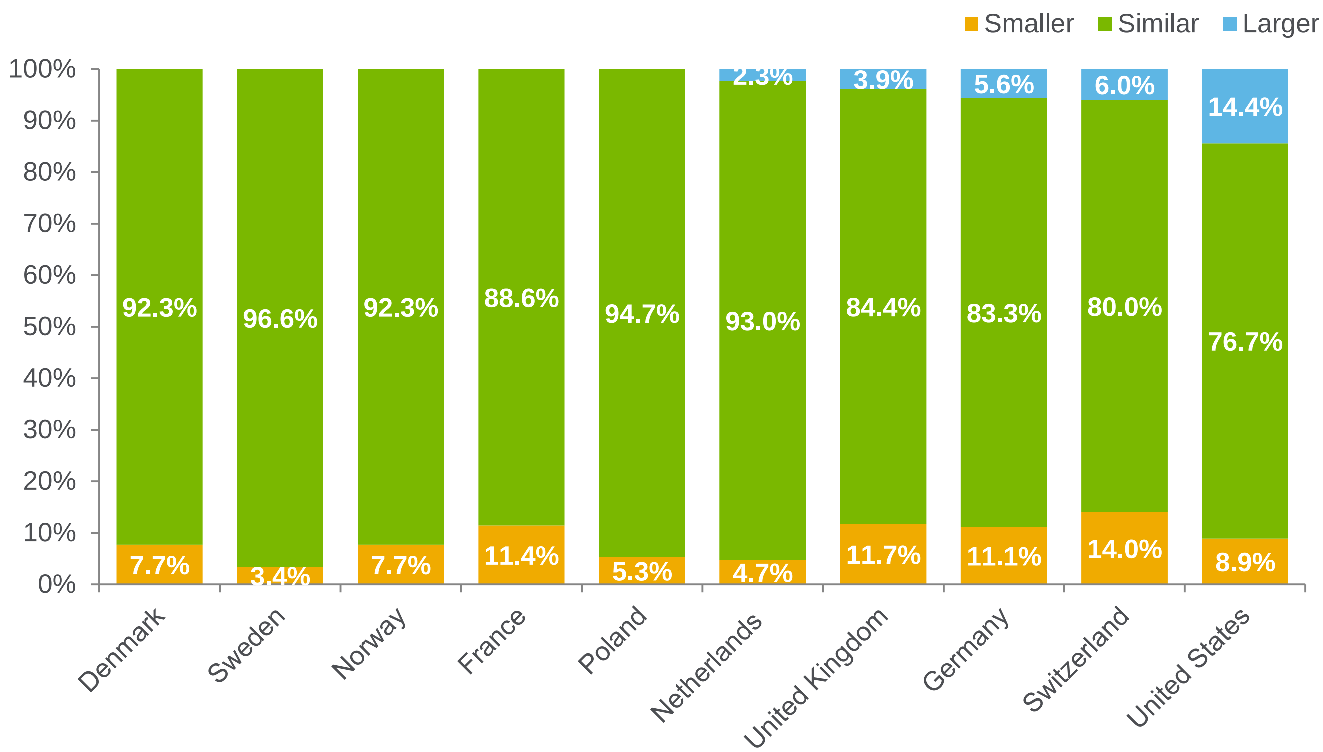
Employee Eligibility for Short-Term Incentives



As you'll see above, with a few exceptions at the S3 level, Denmark matches or exceeds all other markets for short-term incentive eligibility at most employee levels. Again, this aligns with the region's egalitarian approach. However, in the current market, one has to wonder if spreading rewards across an organization to such an extent leaves enough room to properly differentiate between poor, average and exceptional performers. Interestingly, despite the myriad concerns raised by clients at our meeting, we don't see many Nordic life sciences companies attempting to change this dynamic.

Additionally, as our next chart illustrates, Nordic life sciences companies don't appear ready to make greater investments in their short-term incentive plans either. While small percentages of peer companies in Germany, the Netherlands, Switzerland, the United Kingdom and the US plan to increase bonus payments in 2017 relative to 2016, no companies in Denmark, Norway or Sweden plan to do so. In an increasingly competitive market, this only exacerbates client angst.

Expected Bonus Payouts in 2017 Relative to 2016 Payments



Our meeting attendees all seemed to acknowledge the need to deliver short-term incentives in more targeted manner, but our data suggests change is hard. It will be interesting to see how quickly Nordic companies push for change this year and next.

Long-Term Incentives

When it comes to long-term incentives, differences in practice across the Nordic region relative to the other parts of Western Europe and the US can be even more dramatic. Again, life sciences companies in Denmark struggle to deal with the tension between traditional Nordic models of long-term incentive design and more liberal approaches in other countries where target payouts and differentiation are greater. Additionally, there are important differences in equity vehicles mix. Nordic countries favor performance-based equity over stock options, which are still widely used in the US life sciences sector.

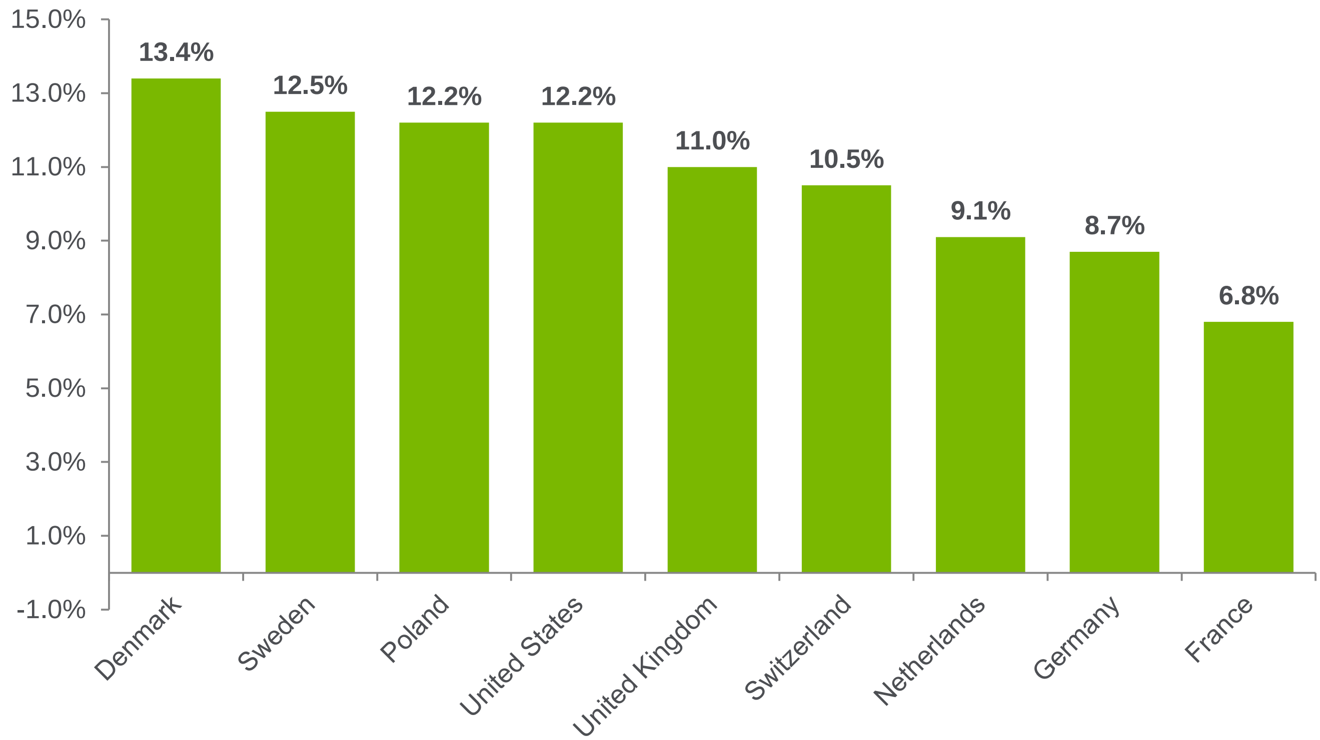
If Nordic life sciences companies were able to operate in a silo, not influenced by pay practices in Europe and the US, then these differences in equity practices wouldn't matter much. But with Nordic life sciences companies looking for opportunities to move into new markets, and drawing from an expanded geographic labor pool, differences in rewards practices matter more and more.

For our clients at the meeting, a few shared equity compensation challenges came to light; managing internal pay equity as non-local hires are added to the team, finding the right balance for risk and reward across Nordic, other European and US, and managing different governance standards for executive rewards.

Employee Turnover

As you might expect, employee turnover is one of the leading headaches caused by the ascent of the life sciences market in Denmark. And in this case, our clients in Copenhagen have a strong right to express concern. After reviewing our latest data from the Q4 2016 Radford Workforce Trends Survey, it turns out median voluntary turnover, measured on a trailing 12-months basis, is higher in Denmark than in any other country with a strong life sciences talent pool.

Median Voluntary Employee Turnover in Key Life Sciences Markets



In some countries, including the US, companies are addressing high rates of turnover via one-time retention bonuses to high-impact employees or workers at an increased risk of leaving. Other, more long-term strategies include placing a greater focus on talent programs that identify high-potential and high-performing employees sooner in their careers, followed by the adoption of well-functioning variable pay programs to reward them for their contributions. While Nordic rewards strategies tend to be more egalitarian in nature, today's high level of voluntary employee turnover is another potential reason for life sciences companies in the region to explore whether they should make a change to their total rewards practices.

Next Steps

Nordic life sciences companies looking to motivate and incentivize employees should consider how their approach to short- and long-term incentives might help or hinder their ability to retain and compete for talent, especially when considering expanding to new markets. Some of the questions to ask when examining pay practices include:

- **Are our pay programs driving the behaviors we desire in employees?** If your incentive plans are too complicated, they either need to be simplified or you may have to invest in more communications to foster understanding. Additionally, if targets aren't large enough to drive desired behaviors, consider alternative design approaches, such as team-based arrangements or profit sharing models.

- **How does your total rewards package by job level compare to your peers in all of the markets where you compete?** If you are lighter on incentives, but have, for example, higher base salaries and/or expanded benefits and perks, are you effectively communicating your relative strengths. Also consider what policies are worth globalizing to push advantages in new markets.

- **What is our company's unique employee value proposition?** For life sciences companies, our research tells us employees are increasingly motivated by a compelling mission-critical culture. Do your existing talent and rewards programs drive and support a culture of this nature?

- **How can we proactively address any gaps to market?** If your rewards practices aren't market competitive, consider what changes you can make within the limitations of your compensation budget. If your budget is fixed, then you might need to differentiate on eligibility and target amounts for short- and long-term incentives to ensure you can hire and retain key individuals in the organization.

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