



International 2 Managing International Employee Benefits

Assignment 1 Notes

(Part 1 – Applying the Principles Covered in International 1: Foundation in International Employee Benefits)
(Part 2 – Objectives of a Multinational Company)

Recommended Time: 3 hours

- 1. Explain why international employee benefits need to be managed giving examples of two types of risk the Benefits Manager must take into account and explain the statement “Half the battle of effectively managing employee benefits is knowing what benefits the company has” by reference to the ownership of policy documents and the existence and management of benefit inventories.**

20 marks

This question concentrates on two aspects of how companies manage employee benefits:

Why do benefits need to be managed?
How do companies manage information in the context of benefit management?

Answer should include:

The first part of the question is looking for an appreciation of why management is required. Points to include are the complexity of benefits, the fact that benefit practice (structure, financing, regulation etc.) vary from country to country, the need for good corporate governance, cost management and consistency with employment objectives. Management is required to ensure risks are managed and controlled.

The types of risks that can be considered are:

Financial / Accounting
Compliance / Regulatory
Reputational

The second part of your answer should include:

Why information is important to manage benefits
Why information is often difficult to collect (e.g., inconsistent reporting formats, difficulty to get information from local offices)
Why information is difficult to manage (e.g., requires constant management, expertise etc.)

Additional points covering who manages the information, what is a benefit inventory and what it contains would also receive marks.



- 2. Define 'Corporate Governance' and explain how it relates to employee benefit provision and identify the advantages and disadvantages of employees being involved in Corporate Governance of employee benefit plans, giving two examples of roles employees can play in this task.**

20 marks

Answer should include:

A definition of Corporate Governance...“Corporate governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders’ role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the board include setting the company’s strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. The board’s actions are subject to laws, regulations and the shareholders in general meeting.”

Include discussion of:

- Strategy
- Leadership
- Control structures

- Policy makers are now more aware of the contribution that good corporate governance makes to financial market stability, investment, and economic growth
- Companies better understand how good corporate governance contributes to their competitiveness
- Investors, including pension funds, realize they have a role to play in ensuring good corporate governance practices, thereby underpinning the value of their investments.

How it relates to employee benefits including a discussion of controlling risks related to the provision and financing of employee benefits, employee benefit provision consistent with corporate objectives and leadership decisions related to employee benefits



2 examples taken from those below...

- The degree to which employees participate in corporate governance depends on national laws and practices and may vary from company to company as well.
- In the context of corporate governance, performance enhancing mechanisms for participation may benefit companies directly as well as indirectly through the readiness by employees to invest in firm specific skills.
- Examples of mechanisms for employee participation include employee representation on boards and governance processes that include consideration of employee viewpoints in certain key decisions through consultation with works councils or other representative bodies.
- With respect to performance enhancing mechanisms, employee stock ownership plans or other profit-sharing mechanisms are to be found in many countries.

3. Explain the difference between typical Corporate Governance structures in two countries of your choice.

10 marks

Answer should include:

Countries highlighted can include:

- UK and US (often Ireland, Switzerland too)

In the UK and USA, most multinational companies will have a Board of Directors elected by shareholders. Some members of the Board may be corporate officers involved in the day-to-day running of the business, e.g., the Chief Executive Officer (CEO) or Managing Director and the Chief Finance Officer (CFO) or Finance Director, whereas others may be appointed independently. Company directors have statutory responsibilities for the overall management of the company. The Board of Directors will generally make all significant decisions relating to the business but delegate the day-to-day running of the business to an Executive Team or Management Group. Members of this group will include the CEO and other key senior Executives. In the USA, the CEO often acts as the Chairman of the Board, whereas, in the UK, it is now unusual for a CEO to also act as, or become, Chairman of the same company.



US influenced by Sarbanes Oxley. Companies listed in the USA must comply with the US Sarbanes-Oxley Act of 2002. This Act was passed into legislation following a series of accounting scandals and collapse of companies, including Enron and WorldCom, in the early part of the 21st Century. The Act introduced major changes to corporate governance practices. It brought a new legal and regulatory focus on internal controls and made the CEO and CFO responsible for these controls. It required the CEO and CFO to certify on a regular basis that the controls were working and required companies to produce an internal control report in conjunction with the company's external auditors. As a result of Sarbanes-Oxley, US-listed companies have changed the way that information is reported to company directors and how decisions are made. In relation to pensions, this has resulted in greater scrutiny on international benefit programmes and the selection of US GAAP accounting assumption.

Alternatively, you could compare the following countries but go into detail as per above.

- Germany, Netherlands:
 - Supervisory Board (including non-execs & employee reps) reviews major decisions
 - Executive Board responsible for day-to-day decisions
- Sweden – single board
- Japan – like Europe although more complex structures

4. Explain how the decision-making process in respect of employee benefit provision and financing should reflect Corporate Governance principles.

10 marks

Answer should include:

Decision making is a key element. Who decides:

- The board of directors would normally sign off any decisions where there would be a very material impact on the company's financial statements (for example, closure or termination of a major plan, significant changes to benefits, major changes to investment strategy, treatment of pensions in mergers and acquisitions etc.)
- Less material decisions (e.g., closures of smaller plans, minor plan changes) may be delegated to Executive Management, particular individuals (such as the CEO, CFO or HR Director), or a Global Benefits Committee. These groups/individuals would also be responsible for making recommendations to the board of directors



- Day-to-day decisions may be delegated down to individuals depending on the nature of each decision and the structure of the company. It will also cover which decisions should be made centrally (e.g., by a Compensation & Benefits Director or Group Pensions Director) and which can be made at a local level
 - Even where decisions can be made locally, some companies will require local entities to consult headquarters before making changes to their benefit plans. This allows central oversight of all benefit changes and helps ensure a consistent approach in different countries. There may be a materiality limit set to ensure that minor changes with little financial impact do not need to be approved centrally.
- 5. In the following examples, highlight the importance of Corporate Governance and give two examples of concrete Corporate Governance measures that may be put in place:**
- (i). ABC Manufacturing is a Germany multinational with 50,000 employees in Germany, UK, Switzerland, and France. Most employees are in Defined Benefit schemes although new employees since 2009 are enrolled in Defined Contribution schemes in some counties**
 - (ii) DEF Services is a fast-growing American multinational in the software industry. It was formed in 2006 and is represented in over 80 countries worldwide with employee numbers ranging from 20 to 2000.**

10 marks

Answer should include:

Examples from material and from the 4 examples in the study text which set out some examples. Factors to consider can include:

- i. Importance of managing risk related to defined benefit, complex administration if some employees are in two different plans. Would require actuarial valuations and continual monitoring of what are likely to be large liabilities. May be reputational or talent retention issues related to introduction of new defined contribution plan
- ii. Difficult to keep track of several different plans particularly if the company is fast growing and expanding in areas without any local presence. May be retention issues later if employees stay a significant period without employee benefits which encourage them to stay in the company. Possible that some 'defined contribution' plans are actually defined benefit in reality.



6. Explain the reasons why a Global Benefit Committee may be set up and outline 5 responsibilities that it may take on.

10 marks

Answer should cover:

Reasons for setting up a Global Benefit Committee are:

- Pension and employee benefit risks are substantial business risks and need to be managed in the same way as other business risks
- Multinationals have expanded, e.g., by buying other businesses, and now have significant legacy pension arrangements across a range of businesses
- Companies have increased focus on corporate governance, e.g., as a result of Sarbanes-Oxley in the USA
- Changes to accounting standards have meant that there is greater visibility of pension costs and liabilities
- Companies are becoming more centralised with more decision making and policies being done at head office level rather than at local level

Responsibilities cited can include:

- Managing Pension Risk
- Controlling Total EB spend
- Setting Design Policy
- How benefits should be financed
- Senior Executive and Mobile Employees
- Managing Benefits in M&As
- Global Providers of Services



7. Identify the labour market issues that need to be taken into account when drawing up an International Benefits Policy.

5 marks

Answer should include coverage of:

- A company's first consideration in establishing pay and benefit programmes is the competitive labour market
- Necessary to identify the sector or sectors of the market that represent competition for labour in each sector and country
- First reference is to the industry, but each company may compete for different segments of the labour market in different jurisdictions or locations. (Give example – e.g., company in manufacturing will also have service staff)
- Companies will compete for labour within their own industries for certain categories of employees but may also compete in the general local or national market for others. In general, clerical employees are recruited locally, but do not require any industry-specific experience or training. Financial or Information Technology employees may be recruited from a broad cross-section of industry. Senior management positions may be filled from a national or even international market, within or outside a particular industry sector.

8. Outline local considerations other than labour market issues that should be taken into account when drawing up an International Benefits Policy.

15 marks

Answer should include the following points:

Four key elements are:

1. **Employee Needs.** In establishing policy and designing local benefit programmes, companies will be well advised to consider the actual needs of employees. Such consideration must be made in relation to the actual and/or projected future employee demographics, local social insurance provision and cultural practices of each location. A benefit that may be highly valued in one jurisdiction may be of little importance in another. This can be done by employee surveys, looking at take up rates of optional benefits, the use of focus groups or offering choice through flexible benefit arrangements.



2. **Legislation.** Although the legislative framework governing employee benefits in different countries will often be based on similar themes, specifics vary to a great extent. Forms of benefit that may be tax efficient in one jurisdiction may offer no tax advantages at all in others. Legislation in some countries simply will not recognise the existence of forms of benefits that are typical in others. The term “legislation”, in this context includes all types and forms of statutory, regulatory and administrative laws, as well as case law in jurisdictions where many detailed interpretations are ultimately left to the courts
3. **Culture.** A critically important factor, both in establishing policy and in designing specific benefit programmes, is recognition that local culture and custom are as important as compliance with local legislation. Different cultures involve fundamentally different views of a myriad of issues. In some Western cultures, legal requirements with respect to governmental reporting and filings are critically important and failure to comply can have very serious consequences, whereas in others there may be fewer, or less stringent, requirements. In some other jurisdictions, there may be a much different view of time. In Japan, for example, there is a much longer-term view of nearly everything. As a result, the urgency for immediate action that may be felt by Western management is simply neither shared nor appreciated by local Japanese managers or service providers. Westerners often find these sorts of differences frustrating. However, in dealing with benefit programmes for employees in other cultures, it is usually best to learn to understand the differences in culture that may underlie such frustration.
4. **Regional Alliances / Agreements.** Cross-border economic and/or political alliances such as the EU or the North American Free Trade Agreement are of increasing relevance. Until recently, they have had little substantive impact on local benefit design or provision. However, within the EU, instances of pan-European legislation have started to influence local legislation governing employee benefits. Many countries also have bilateral agreements related to social security coverage for employees on short-term work assignment in another country.

To achieve full marks, you should put down 3 or 4 points for each element