This is the Managing Pay module for compensation training. There are 8 other modules that have been developed to provide you a basic overview of many topics you should be aware of when managing employees at Oracle. Most compensation information applies globally; however, there are some topics that vary by country and/or region, so the global compensation team developed region-specific modules to cover topics that aren t relevant worldwide. Please review the modules for each region in which you have employees.

Keep in mind that this is simply an overview and t is not designed to teach you everything there is to know about compensation. It is important to work with your local compensation team representative and HR manager on employee compensation issues.

Topics

- Introduction
- General Principles
- Setting pay for:
  - Recruitment
  - Promotions
  - In-country transfers to a new role
  - Voluntary employee transfers from one country to another (not international assignments)
- Off cycle reviews

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In this module, we will discuss the general principles of managing pay for your employees. We will go through examples of how to set pay when recruiting, promoting and transferring employees, and we will also discuss the topic of off-cycle reviews.

Introduction

- **In this module we consider pay management issues when:**
  - Recruiting prospective employees
  - Employees are being promoted
  - Employees are transferring to a new role
  - Employees are voluntarily making a cross border transfer – not on assignment
- **These activities may involve:**
  - Setting the rate for the job
  - Changes in split (base/annual target variable[ATV])
  - Change from commission/variable pay to bonus & vice versa
  - Lateral transfers with and without changes in salary range
  - Transfers between individual contributor IC and M management roles

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Discussions about how to manage pay at Oracle come up in many situations. These discussions will occur during the recruitment of an employee, when giving a promotion to an employee, and when transferring an employee to a new role, or to a new country.

When faced with these situations, most compensation related discussions will be about how to set the base salary for an employee, whether it is a new recruit, a promoted employee, or a transferring employee.

The transfer of an employee to a new role could give rise to more potential compensation adjustments if the move includes a change in variable pay, for example an employee moving from a Consulting role into a Sales Role. What should happen with the base salary? What should happen with the variable in case of such a move?

The intention of this module is to educate you and to give you guidelines on how to handle each of these scenarios.

General Principles

- Compensation and benefits must be in line with the standard for the job
- Employee's salary should take into account:
  - Comparisons with others in group (peers) - equity
  - Relevant knowledge, skills, abilities and experience
- A promotion does not necessarily require a simultaneous salary increase. This would normally be taken care of during the salary increase process.
- Employees must not undertake a new role until the compensation has been fully approved and the appropriate terms and conditions have been accepted.

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Managing pay at Oracle is an art, not a science, and there are various factors at play. Compensation and benefits offered to employees should be in line with the Oracle local standard for the job, but managers should also take into account internal equity, as well as the relevant knowledge, skills, abilities and experience of the employee.

A promotion does not necessarily require a salary increase at the same time, although you should take into consideration the compa-ratio of the employee in the new role if you do promote without an increase. While it is perfectly appropriate for a newly promoted employee to fall in the first quartile of the new range, the compensation team discourages dry promotions where the employee would fall below the range, because eventually getting the employee appropriately positioned in the range following a promotion without an increase can be quite difficult.

It is important to note that employees must not undertake a new role until the compensation elements have been approved and the appropriate terms and conditions have been accepted.

General Principles (2)

- Balance external and internal equity considerations
- Differentiate rewards by performance
- Manage your budget – you will never have enough!
  - Base salaries should be reviewed in a business context, taking account of what the business can afford
- Be honest and open with communications on rewards and performance
- These principles apply globally, but pay rates differ by country

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Setting pay for an employee is not a simple exercise. To make the best decision, it is important that you consider all the relevant pieces of the puzzle; namely, balancing internal and external equity, individual performance levels of your employees, and your overall budget.

Internal equity is considering how much you pay your employees relative to one another. In addition to salary, variable compensation and stock options are other tools you can use to differentiate pay to give more to your "stars". When you are making pay decisions consider internal equity, and be as fair as possible. Differences need to be based on fair, justifiable and non-discriminatory criteria. Focus on results, which is not always the same as effort. Some employees try really hard, but for whatever reason, do not come through with the desired results. It is important to coach these employees to turn effort into results, where possible, so that they will be rewarded in the future.

Once again, it is important that your employees know the factors that you consider when making pay decisions if you want these factors to shape individual behaviors. If an employee believes he or she will get the average salary increase regardless of his or her performance, there is no motivation from a monetary perspective for him or her to expend extra effort to improve performance. You SHOULD NOT MAKE SPECIFIC PROMISES HERE, rather it is important to communicate that if an employee achieves all of his or her objectives, he or she will be rewarded more than an employee who does not. As a manager, you can give examples of possible rewards, such as getting promoted faster, getting a larger share of the bonus pool relative to lower performers at the same level, or getting a better than average salary increase when salary increase budgets become available.

It is important for managers to be open and honest with their employees when it comes to rewards and performance. However, it is equally important that employees know that there are no guarantees.

Other Observations

- There is no data to support a direct link between compensation alone and attrition.
- Some short term internal equity distortions, caused, for example, by acquisitions, cannot be always be rectified immediately.

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Be careful when analyzing pay and attrition. It is natural for employees to leave the company for more money, and for them to provide this as the reason for leaving, but other factors generally prompted them to look outside in the first place. Examples of such factors may include, lack of career development, poor management, and working environment - for instance excessive amounts of travel and/or overtime.

It is important to note that sometimes acquired employees have higher salaries than the legacy Oracle groups, and we are not able to rectify the inequity immediately. In Europe and many other parts of the world, legislation requires the company to retain the salaries of the acquired employees.

Recruitment

- Each job is assigned a salary range that is unique to the country
  - The midpoint of the salary range represents the base salary a fully competent employee performing as expected
- When recruiting you should consider the value of the "total reward" rather than salary alone, both tangible and intangible:
  - Value of base salary, annual target variable (ATV)/bonus, Benefits (retirement plan, medical, life and disability insurance, car/car allowance, etc)
  - Oracle experience, training, career development, long term opportunities, location etc

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If you seek to recruit externally a person already in a similar role, who is fully competent, you may have to pay a salary higher than average to attract him or her. If you consider offering a higher base salary, don't forget to account for the other elements that Oracle has to offer, including great benefits, employee training, career development and long term opportunities. If the candidate would have potential gains in variable pay or in the value of the benefits package, this should not be overlooked when setting the base salary for a new recruit.

Selecting the correct global career level for the individual's skill level is key, and please beware of recruiting at an artificially low salary, particularly where a candidate comes from a lower paid sector, as this may give rise to equity issues in the future.

Recruitment (2)

- Example Scenario:
  - Range (from CWB or IWB) 49,000 - 68,000 - 86,000
  - Average salary on team: 65,000
  - Candidates doing the job are earning 63,000 – 75,000
- Recruitment dilemma:
  - Qualified candidates are earning as much or more than existing team members
  - A premium will be required to attract these candidates:
    - say 68,000 (midpoint) x [redacted] higher than midpoint and Oracle average)
  - Would increase costs and pay pressures within the group
  - But could still recruit as pay requirement is still within range

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In this scenario, we are looking to recruit someone to fill a role with a range of 49,000 to 86,000, and a range midpoint of 68,000. The average salary of the peers on the team is 65,000, but the qualified candidates doing the same job are earning 63,000 to 75,000.

Oftentimes, a premium of [redacted] will be required to lure a candidate away from his or her current job. In this case, we would probably have to pay above the midpoint, and above the peer average just to get the candidate to join Oracle.

While it is possible to make an offer that is above the midpoint, please keep in mind the following when making a premium offer

1. The high offer may cause pay pressure within the team, and longer tenured employees may be disgruntled because the new hire has a higher salary.
2. The performance of the candidate has not been tested – you may be employing an average performing employee at an above average salary.
3. There may be some potential for equal pay claims, employee relations issues and attrition among the peers.

Recruitment – Alternative Strategy

- **External applicant has minimum qualifications for the position, may be from non tech company:**
  - Applicants at this level currently earning 54,000
  - Ready for promotion/stretch
  - Oracle average 65,000
  - An attractive offer can be made at a salary lower than 65,000
  - Below grade midpoint of 68,000
- **Advantages:**
  - Hiring salary, say, between 56,500 – 60,000 depending upon assessed performance potential, background etc
  - Keeps costs down
  - No equity issues
  - Recruit motivated – career progression, Industry experience
  - Scope to progress salary as employee progresses

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If we take a different approach to hiring into the same job mentioned in the previous slide, with a midpoint of 68,00 and Oracle average of 65,000, we could hire a qualified applicant who may be from a non-technical company and we may be able to offer a lower salary. In this situation, we could offer a salary between 56,500 and 60,000, and this would still be within the range, which is 49,000 to 86,000, but it wouldn't cause equity issues among the team. The recruit may be motivated by the opportunity for career progression and the industry experience, and we do not have to pay a premium to get him or her to join the team.

Changing Roles

- **Example Scenario: Move from low paid to higher paid role**
  - Current mid point: 49,400
  - New mid point: 49,400
  - Individual's base salary 57,000
  - Current split 70/30: OTE 81,000
  - New split 50/50: OTE 114,000 (if moved with no change to base)
  - New role average base salary 61,500 (from dept data)
- **Recommendation:**
  - Base 53,000 + ATV 53,000 = OTE 106,000
  - Overall increase on current package – 30%
  - OTE 15% less than existing job holders
  - 8% reduction in base:
- **In addition it may also be necessary to move to lower career level if employee does not have the skills for the level in the new role.**

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Internal transfers are a daily occurrence at Oracle, and while a pay adjustment isn't always necessary, it should be standard practice to review the compensation of an employee transferring from one role to another.

In this scenario, the employee is transferring from one role to another with the same career level, salary grade, and benefits. At first glance, it would seem acceptable to just move the employee to the new role without changing base salary. However, the new role has a different pay mix, so the annual target variable (ATV) is increased by 237% and the on target earnings (OTE) are increased by over 40% if salary is not reduced.

In this situation, the compensation recommendation would be to reduce the base slightly in order to position the employee more appropriately on the team in terms of experience and role within the team. Even though we have suggested to reduce the base salary, the employee's total earnings potential still increases by over 30%, and this recommendation ensures that we don't cause internal equity concerns because we have positioned the new employee a bit lower than existing incumbents.

Changing Roles (2)

- Example Scenario: current and new role in same salary band but new role has lower annual target variable:
  - Salary range midpoint for both jobs: 57,900
  - Employee's current salary 54,600
  - Employee's current OTE (50:50 Split) 109,200
  - Split for new role: 70/30
  - Average salaries of both jobs 56,000
- Recommendation:
  - Salary: 56,000
  - OTE: 80,000

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There are also internal transfer situations where the on target earnings will be reduced dramatically upon transfer. This is a difficult sell but the new role has less risk and the employee has the choice not to take it. In this scenario, the new OTE has a standard 70 30 split and we've included a small increase in base salary, from 54,600 to 56,000, which is the average base of the incumbents already in the job. It is important to remember that the employee must be paid the appropriate rate for the new job, regardless of earning potential in his or her prior role. You should not be tempted to maintain the earnings of an employee who has a desire to change roles.

Alternatives to this scenario may include the following

If the new peer group average salary was higher, say 63,000, the employee's base salary could have been enhanced by a small amount, assuming there is no material difference in skills and experience. This would put him or her closer to peers, and the employee would also be better positioned for future promotions.

On the other hand, if the new peer group average salary was lower, say 52,000, the employee's base salary may need to be reduced in order to maintain internal equity. While reducing base salary is very difficult, it is not impossible when done for the right reasons. In this situation, the employee's base salary could stay as it is but you would need to carefully consider internal equity and whether the salary level can be justified on the grounds of a genuine material difference.

Promotions

- A promotion is a move from a job in one career level to a job in a higher career level with greater responsibility and impact on the Company's business.
- Promotions are not always accompanied by a salary increase but:
  - Benefits may increase
  - Incentive earnings may be different, higher leverage, and lead to increased earnings potential
- Pay does and should vary between individuals, but variations must be due to a genuine material difference
  - Experience, knowledge, skills, performance, etc.

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As defined, a promotion is a move from a job in one career level to a job in a higher career level with greater responsibility and impact on the company's business. Promotions are not always accompanied by a base salary increase, but benefits and incentive earnings may increase for the employee.

If an employee is positioned very low in his or her current range, or has a salary that is not in line with the peer group in the new role, a promotion without a salary increase could cause internal equity issues, and may even cause the employee to fall below the minimum of the new range.

Therefore, it is strongly recommended that promotions without salary increases do not take place unless the individual's pay is appropriately positioned in the new range and peer group. In Canada, employees are required to be paid within the range, so a promotion without an increase that would put the employee below the new range is strictly prohibited.

Promotions – More Difficult Issues

Situation 1:

- Employee's current salary is very high in the current salary range and without an increase would also be high in the range for the new position:
- Consider
  - Promotion without pay increase
  - Total pay – does the total compensation/incentive opportunity increase?

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In this first scenario, a promotion without an increase would probably not cause issues. While most employees would prefer an increase in salary to go along with the increased responsibility that comes with getting promoted, this employee would be positioned high in the new range, so there is little risk involved in terms of the new group of peers. If the promotion leads to an increase in annual target variable, or if the benefits increase with this promotion, these would be good selling points for the employee without having to increase his or her base salary.

Promotions – More Difficult Issues

Situation 2:

- Employee is to be promoted from IC to M level job
- Consider
  - No link between IC level and M level roles
  - Has the employee to be promoted had management experience?
- Total pay – does the overall package improve?
  - Base pay: how does the current base pay compare to the new peer group? What level of salary increase should be given in recognition of additional responsibilities
  - While it is good practice to increase salaries for significant promotions such as a promotion to management, it may not be necessary in all cases.

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The last scenario we will describe is the promotion from an individual contributor level to a management position.

The first decision to be made is to determine which M-level should be used. Remember, there is no direct link in our career paths between IC-levels and M-levels. In determining the level, you would factor in the size of the team, the scope and complexity of the position, and whether or not the employee has previous management experience.

Once you have determined the appropriate management level, and what specific job code will be applicable, you need to look at the overall package of the new position, including base salary, variable or bonus pay, and benefits eligibility. While it is good practice to increase base salary in recognition of a promotion to management, in some cases, the overall compensation package will improve, even without an increase in base salary.

As mentioned previously, it is recommended that promotions without salary increases do not take place unless the individual's pay is appropriately positioned in the new range or peer group.

Cross-Border Transfers

- A cross border transfer is a permanent move from one country to another. It is NOT an assignment.
- Pay levels for the same job differ markedly from country to country even where currency is the same, eg. in Europe several countries use the Euro but have different salary ranges
- You should pay appropriately in the new country. Do NOT simply transfer at the same salary level converted to the new currency.
- If the employee's job code is not changing in the transfer, use the employee's current compa-ratio as a starting point to determine the base salary in the new location, provided that will not place the employee below or above the new range.
- If the move is a promotion you should consider adopting the principles outlined earlier in this module.
- The new country benefits apply.

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For cross-border, or international transfers, you will need to use the ranges in both the current and future country in order to determine the appropriate base salary for the employee in the new country. In **most** circumstances, the methodology to determine salaries for international transfers is to use the employee's current compa-ratio, and keep it constant upon transfer, provided that the employee is not changing job codes.

It is important to note that even though many countries share a common currency - the Euro in Europe, for example - the ranges that are appropriate in each country are going to be based on the local labor market, so they will not be the same.

To further explain, an employee transferring from Germany to Slovakia will be paid in Euro in both locations. However, the midpoint for the job in Germany is 60,500 and the midpoint for the same job in Slovakia is 31,600. This is almost a 50% differential. If the employee is paid 58,000 in Germany, his or her compa-ratio is 95%. Therefore, we should adjust the employee's base salary so that he or she is paid 95% of the midpoint in Slovakia, which is 30,270. While this may seem like a huge pay cut, the employee will be in the exact same position within the Slovakia market as he or she was in the German market.

In cases where the employee's current compa-ratio is extremely high, or extremely low, we look to the new

peer group, while keeping in mind the employee's current position. For example, if an employee has a compa-ratio that would put him or her below the new range minimum, we look to the new peer group average and then take into account the low current compa-ratio. In this case, the employee would transfer at the low end of the peer group, but never below range. The same applies for employees who would be over range maximum. The employee would transfer at the high end of the peer group, but never above range.

In the case of a cross border transfer, the move is generally a lateral one with no change in the job level or compa-ratio. However, occasionally, the move also involves a complete change in job family and/or level. In this case, the salary is established in the same way as a new hire.

Salary Increase Reviews

- Use the salary increase review for:
  - Promotions
  - Promotions that were not accompanied by a salary increase
  - Rewarding performance
  - Addressing equity issues where differentials are not justified on the grounds of
    - Knowledge
    - Skills
    - Experience
    - Some other measurable non-discriminatory factor

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The salary increase process is the most common time for promoting and giving base salary increases to employees. You should use your salary increase budget wisely and first recognize your top performers and those employees who were promoted without an increase at some other point during the year. You should also use the salary increase process to address issues where differences in salary are not justified on the grounds of knowledge, skills, experience or some other measurable, non-discriminatory factor. A measurable non-descriminatory factor could include size of quota or target, size or complexity of a project, or span of control.

Off-cycle Reviews

- An off cycle review may be required for:
  - Promotion
  - Competitive counter offer
  - A change between commission and bonus based compensation
  - A change of job to a different on-target earnings (OTE) split

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Off-cycle reviews are not very common at Oracle, but they do occur. An off-cycle increase may be necessary to accompany a promotion with a significant increase in responsibility, to counter an offer from a competitor, or to fill a gap that may be left if an employee job change involves a change in variable earnings.

Business Justification

- Business justification should include, as appropriate:
  - **Impact on the business if the employee leaves**
    - quantify the impact, potential loss of revenue, impact on leadership (manager), unique skills
  - **Flight Risk**
    - assessment of the risk of the employee leaving company and impact
  - **Internal equity concerns**
  - **Track record**
    - performance record, talent review board recommendations (if appropriate), sales performance compared to peers, delivery against targets, variable earnings history etc
  - **Pay details**
    - comparison with peers, splits, OTE and historical variable/bonus earnings

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A business justification will need to accompany any request for an off-cycle increase. The justification should include the flight risk of the employee if we don't give an increase, the impact on the business if the employee leaves, any internal equity concerns, and the employee's performance record.

More Complex Issues

- Contact your Compensation Analyst any time you need assistance. For example, in the following instances:
  - No range(s) associated with a job(s)
  - A new job that has not existed in country before
  - Difficulty in deciding what to recommend when an employee transfers between roles with different compensation splits or types eg variable vs base
  - Cross-border transfers

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Please work directly with the appropriate compensation contact if you have any questions regarding a compensation-related topic. These situations may involve
Needing assistance if there is not a range listed for a specific job in a certain location
A job that has not existed in a country before, or
Making a recommendation for an employee transfer.

The list of compensation and HR contacts can be found on the Global HR Website under the CONTACTS link. The contacts are listed by Region.

Remember...

- There are no absolute right or wrong or “one size fits all” answers
- Each situation should be reviewed on a case-by-case basis but the principles should be applied as consistently as possible
- Reasons for the decision should be recorded
- Look at the whole picture, not just the position in the salary grade.
  - Differentials between employees
  - Average salaries and ATV’s and OTE’s
  - Internal equity
  - Skills, Knowledge, Competencies etc
- The salary and benefits should be set correctly for the new position. Do not try and protect the earnings of the current job
- The increase/change in status should not be backdated
- Where the change is voluntary the employee has the choice not to accept.

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In conclusion, it is important to remember that compensation decisions are made on a case-by-case basis and the circumstances need to be reviewed in each instance. There is not a "one size fits all" solution for managing pay. As we have reviewed, you should look at the whole picture when making a pay decision, including internal equity, average salaries, ATVs and OTEs within the group, as well as the knowledge, skills and competencies of the employee.

Always keep in mind that the salary and benefits should be set appropriately for the new role, regardless of the employee's potential earnings in a previous role.

Tools and Resources

- Your manager
- The local Compensation/HR department
  - the HR Global Website lists compensation contacts & you will find your HR Rep & Manager by checking your ARIA page
- Internal Websites
  - MEE
  - DBI
  - CWB – used for bonus, stock & salary increase processes
  - IWB – shows salary information and history for all employees within your organization
  - HR Global Website, global HR policies

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In a self service organization like Oracle, there are many resources available to educate you on making compensation decisions.

Your manager should be your number 1 resource for compensation-related discussions. He or she can give you direction about compensation decisions made at the line-of-business level. For example, during the salary increase, bonus and stock processes, some LOBs may implement specific strategies on how they want to allocate their budget pools.

Another important resource for you is the local Compensation manager or HR manager for the country in which the employee works. He or she will be able to provide expertise on local practices, processes and requirements for that country. In addition to providing advice on day-to-day comp decisions, the compensation team and HR team can also provide advice for some of the more difficult compensation-related challenges that you may face. You can find your HR Contact and HR Manager by checking your ARIA page. The appropriate compensation contact can be found on the HR Global website.

In addition to personal resources, Oracle has plenty of online resources available to you. There is a wealth of information available through the global HR website and through HRMS applications like Manager Self Service (often referred to as MEE), Compensation Workbench -or CWB- and Information Workbench (often referred to as IWB).

On the HR Global Website you will find the country HR sites, global compensation information, employee handbooks and global policies such as code of ethics and Business Conduct.

Compensation Workbench is used for comp processes such as the Global Corporate Bonus and the Salary Increase Review and on IWB you will find job and salary information and history for all employees within your organization.

Information Workbench (IWB)

- Main View options:
  - Salary
  - Job Information
  - Sales Salary
  - Total Compensation (summarized - Rolling 12 months)
  - US hours worked - great tool to track overtime hours
- Filters:
  - All employees
  - Direct employees
  - By team
  - Per country
- There is also a training video available under: Information and Links / Trainings.

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Information Workbench is accessed via your Compensation Workbench responsibility. IWB is a tool available to assist you in monitoring all compensation related information pertaining to your employees. In addition to base salary history, bonus history, job history and salary range data, IWB enables you to track overtime and exception pay history for US employees in your hierarchy. The data is refreshed every month.

The main view options that you will find on Information Workbench are salary, job information, and sales salary. But you will also be able to find a summarized total compensation overview of your employees. The overview will show what base and variable compensation your employees have received in the last 12 months.

If you want to view specific sections of your organization, there are filters available in Information Workbench. You may filter by country or direct report team, or you may choose to view just your direct employees or all employees who report up to you.

If you have little experience with Information Workbench, you can use the training video that is available in Compensation Workbench under Information and Links and then Training.

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