

Managing Compensation

Lisa Gordon
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Program Agenda

- 1 Compensation Philosophy and Objectives
- 2 Total Compensation Components
- 3 Compensation System Fundamentals
- 4 Managing Pay Decisions
- 5 Compensation Programs

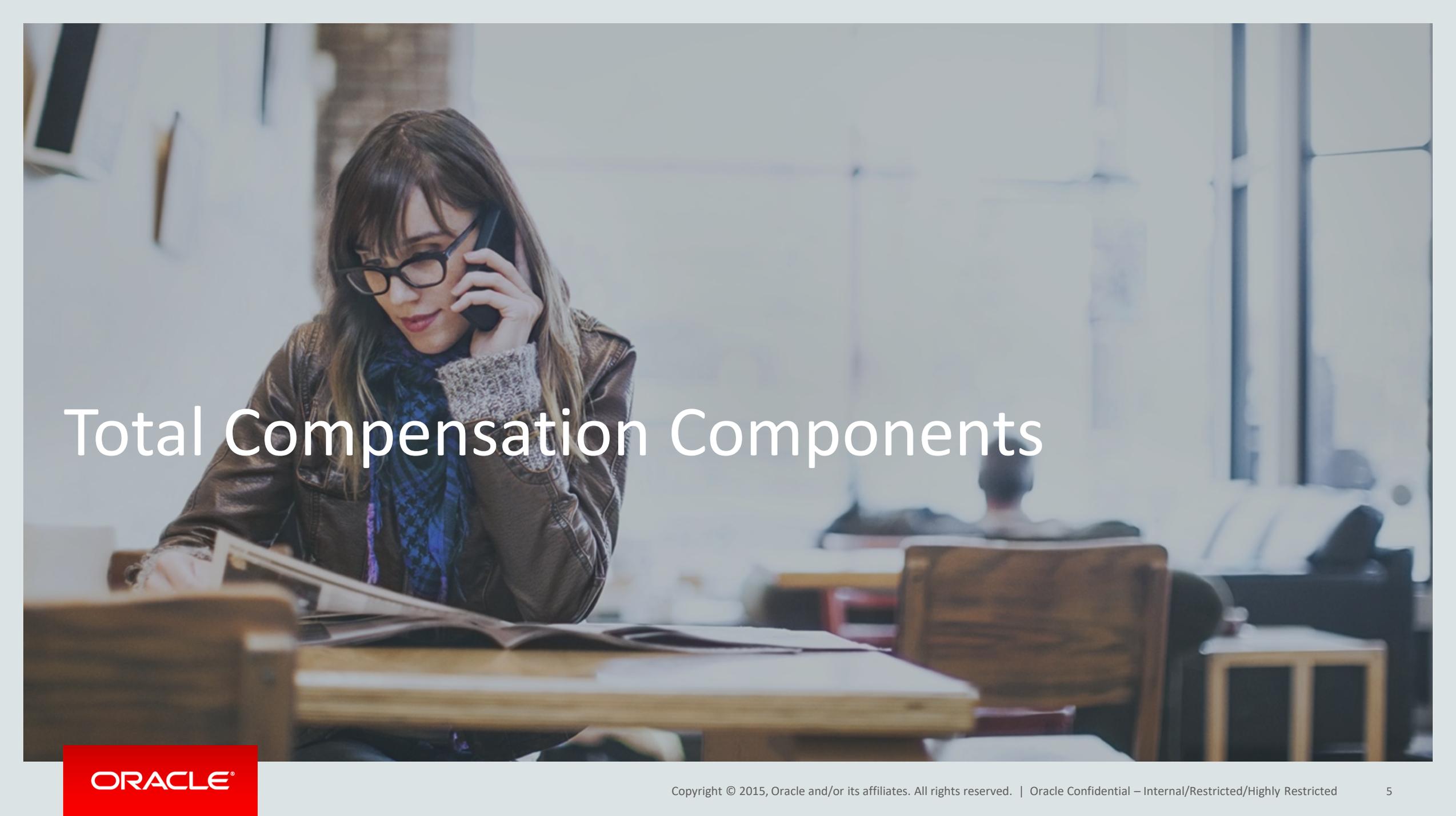
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Compensation Philosophy and Objectives

Oracle's Compensation Philosophy and Objectives

Oracle must attract, retain and motivate highly skilled, high performing employees to be successful.

- Provide compensation programs that:
 - **Attract** and **Retain** by being Market Competitive
 - **Motivate** employees to maximize their productivity, but also consider shareholder interests
 - Are legally compliant
 - Are designed to support corporate objectives
- Pay for Performance
 - Company Performance
 - Individual Performance

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Total Compensation Components

Total Compensation Components

- Cash
 - Base Salary
 - Short term incentives (commission/bonus)
 - Allowances
- Stock
 - Long term incentive – Stock Options and Restricted Stock Units (RSUs)
 - Employee Stock Purchase Plan
- Benefits

Total Compensation Components (cont.)

- Base Salary
 - Linked to employee's skills and competencies in current role, as well as the sustained performance and the local market
 - In some countries, base salary includes fixed allowances
- Short term incentives (commission/bonus)
 - Provides a mechanism to reward short-term performance
 - Payments vary according to performance and allows companies to lower cost when results are not achieved
 - Commission – tied to individual/team performance against quota
 - Bonus – tied to company or LOB results

Total Compensation Components (cont.)

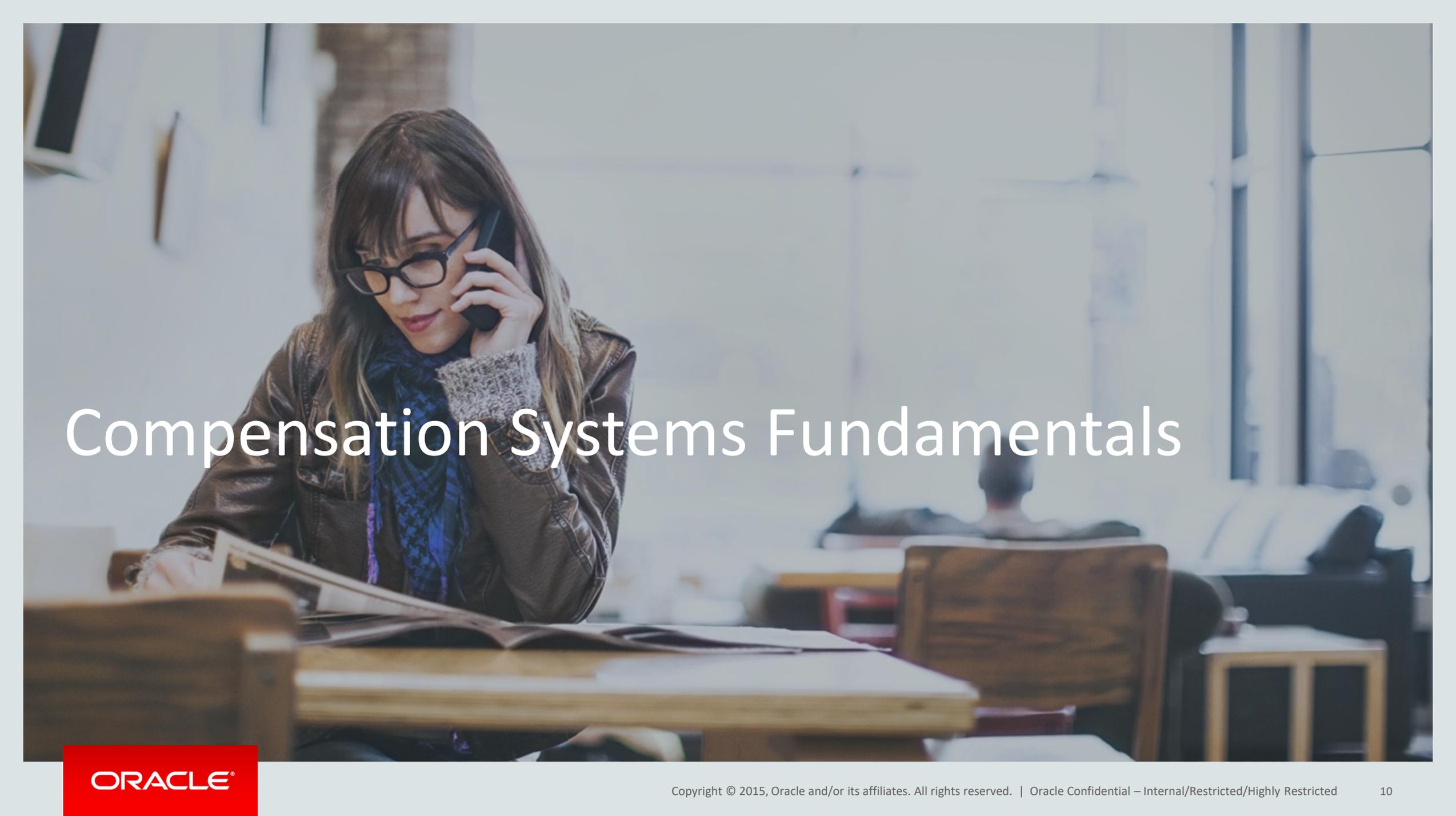
- Stock
 - Long term incentives – Stock Options and Restrict Stock Units (RSUs)
 - Employee Stock Purchase Plan
- Benefits

Restricted Stock Unit (RSU) vs.. Stock Options

RSUs	Non-Qualified Stock Options
A company's promise to issue company stock	Provide the right (but not obligation) to purchase stock at a specific exercise price
Subject to a vesting schedule	Subject to a vesting schedule
Almost certainly have some value Outright grant of stock once vested	No guarantee of value Depends on where the stock price is in comparison to option's exercise price
Risk to capital moment you vest	Risk only when you exercise
Generally, taxed at vest¹	Generally, taxed when exercised¹

¹ Note: Tax treatment may differ depending on country-specific tax regulations or other circumstances



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Compensation Systems Fundamentals

Job Classification & the Global Job Table

- Job Classification is a consistent global framework for job related information that supports a number of key HR and non-HR processes as well as management reporting
- The Global Job Table is a key component of the Job Classification system
- Managers are responsible for ensuring that employees on their teams are in the correct job code
- Assigning an incorrect job code to an employee can cause problems for various processes downstream

Global Job Table

- To facilitate the global job classification process, Oracle uses a Global Job Table
 - Each job is assigned a unique combination of globally defined attributes
 - Job code: Unique identifier
 - Job Title: Commonly known as the “system job title”
 - Function: Describes the type of work the person performs. It is not specific to the employee’s LOB
 - Speciality: A subset of the Function
 - Career Level: Broad category that indicates increase in responsibilities and performance expectations

Global Career Level

- Global career levels are a set of broad categories related to the level a job is performed
- Responsibilities, individual contributions and job complexity increase from one job level to the next in the hierarchy
- The global career level structure has two paths: Management and Individual Contributor. There is no direct mapping between M and IC levels
- An employee is considered to be a manager if their primary responsibility is management (with hire/fire authority) of two or more regular full time equivalent Oracle employees. All other employees should be considered individual contributors, including team leaders

Choosing the Correct Job Code

- The Job code selected should be the job that most closely reflects the role in the organization
- If the job code is incorrect, there could be an impact to the employee's compensation including:
 - Salary range, bonus eligibility, overtime eligibility, and compensation program eligibility
- In some cases an incorrect job code could impact an offer letter or employment terms for M&A employees or access to manager self service and compensation program tools.

Scenario - Career Level

I came to Oracle through an acquisition and feel that my career level is not appropriate compared to others in my work group who are existing Oracle employees. Is it possible to change my career level?

Salary Ranges

- Salary ranges are a tool to assist managers in making decisions about pay
 - Broad ranges allow managers to account for differences in experience, skills, competencies and performance of candidates and incumbents
 - Ranges help managers with employees in multiple countries to pay according to the local market

How are Salary Ranges Developed?

- Local compensation teams participate in, and use data from, salary surveys conducted regularly by external consulting companies
- Compensation surveys should only be purchased and participated in by the Global/Regional Compensation Team

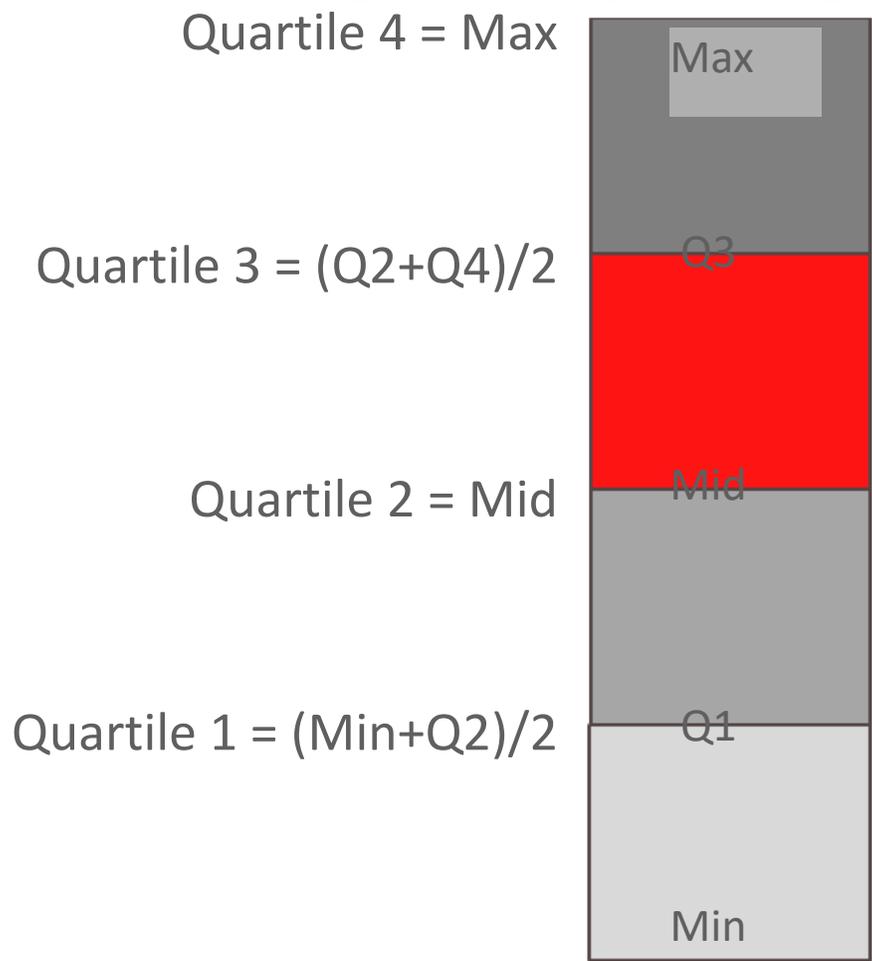
Creating Salary Ranges

Preferred Competitor Companies

- Apple
- Cisco
- EMC
- Google
- HP
- IBM
- Intel
- Microsoft
- Netapp
- Qualcomm
- Salesforce
- SAP
- VMWare

Software Industry
Local Companies
Sales Separate List
Geographical Differences

Understanding Salary Ranges



Managing Base Pay

- 3rd & 4th Quartiles are for employees whose contribution is high or ready for a promotion
- Midpoint typically reflects external market rate for fully experienced, fully competent employee
- 1st Quartile is for employees still learning their role, or below standard contributions

Base Salary – Compa-Ratio

- Compa-Ratio is the ratio of the employee's salary to the midpoint of their salary range.

- Example:

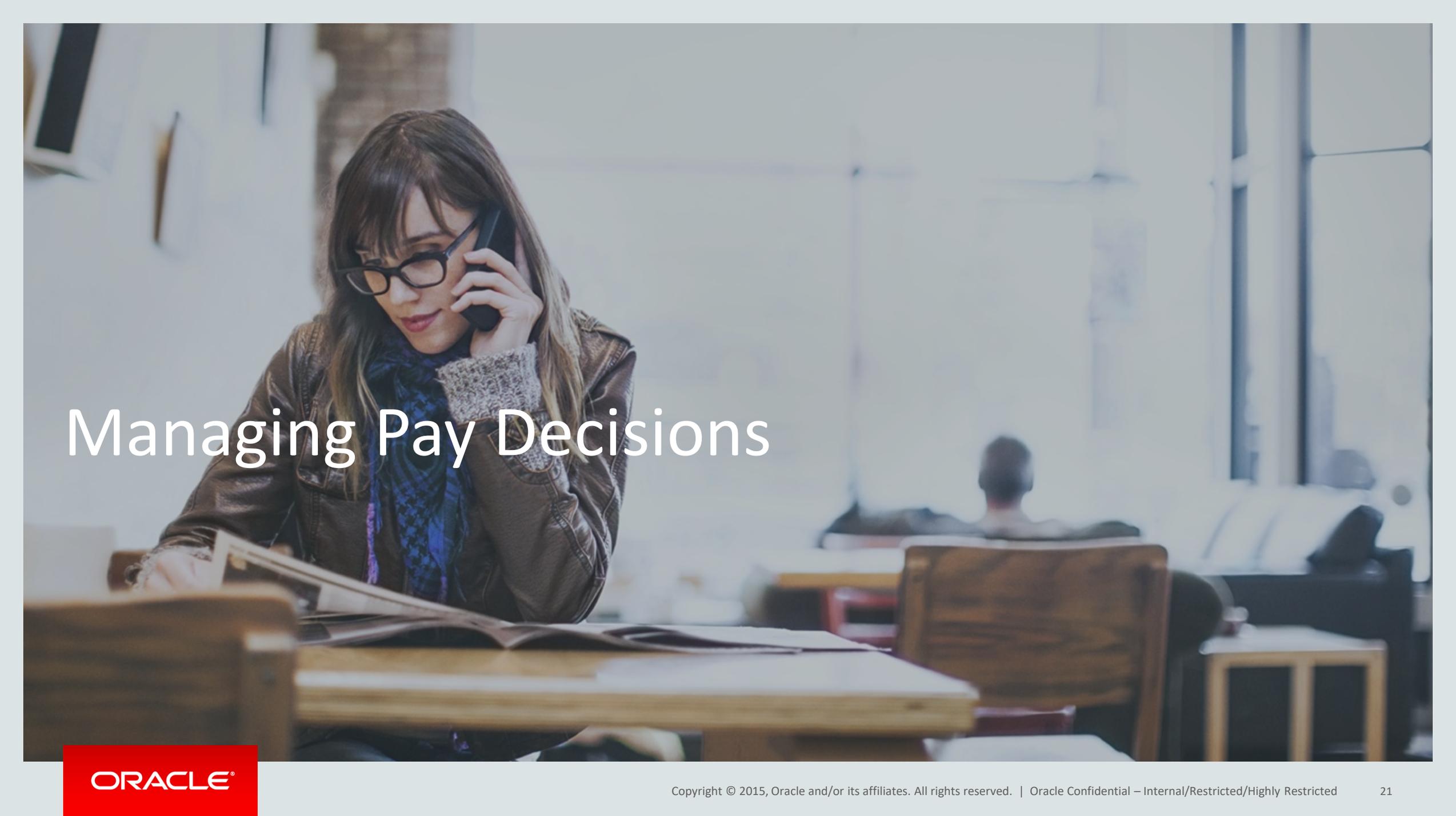
Annual salary - \$30,000

Local salary range midpoint - \$28,000

Compa-ratio = Employee salary ÷ Range Midpoint x 100

= \$30,000 ÷ \$28,000 x 100

= 107.1

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Managing Pay Decisions

General Principles of Managing Pay

- Compensation and benefits must be in line with the standard for the job
- Balance external and internal equity
- Consider the relevant knowledge, skills, abilities and experience of the employee
- A promotion does not necessarily require a simultaneous salary increase
- Employees must not take a new role until the compensation has been fully approved and the appropriate terms and conditions have been accepted

General Principles of Managing Pay (cont.)

- Differentiate rewards by performance but manage within your budget
- Be honest and open with communications on rewards and performance
- These principles apply globally, but pay rates differ by country

External Hiring

- When recruiting you should consider the value of the “total reward” rather than salary alone, both tangible and intangible:
 - Value of base salary and any bonus opportunity
 - Oracle experience, training, career development, long term opportunities, location, benefits, etc.

External Hiring (cont.)

- Example Scenario:
 - Range (from CWB or IWB) min \$49,000 – mid \$68,000 - max \$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 (5% to 10% = 71,500 to 75,000, 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

Scenario – New Hire – Choosing a Career Level and Salary

- Posting is for an M4
- M4 Salary range = 120K – 160K – 200K
- M3 Salary range = 90K – 130K – 170K
- Person will have 4 reports – 1 IC3, 2 IC4s and 1 IC5

- Candidate is a perfect team fit with 10 yrs experience and 2 yrs mgmt exp.
- Current salary of the candidate is 110,000

Promotions

- A promotion is typically 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
 - Salary should be appropriately positioned in new salary range
- Promotion practices differ by organization
 - Some promote throughout the year, others hold until salary review process

Is a Promotion Appropriate?

A promotion could be considered if:

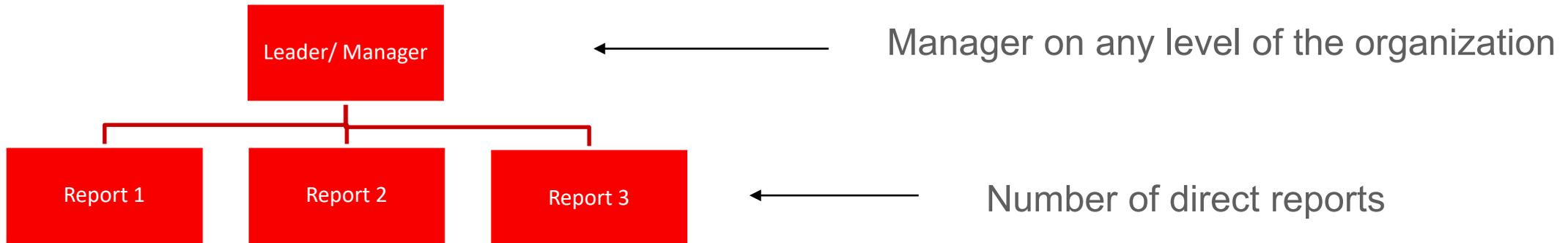
- Business need for higher level role
- Employee is assuming significantly more responsibilities in current role and is ready for promotion

Polling Question

- Under which situation would you feel a promotion is appropriate?
 - A. An employee has been in the same grade for a while and is due a promotion
 - B. I'm concerned the employee may leave the organization
 - C. The salary of my employee is too low and by promoting him I get a chance to increase it
 - D. "My colleague next to me is doing the same job as I do but has a higher career level, so I should be promoted"
 - E. None of the above

Management Promotions

Span of Control (SOC) and Layers Overview



Guiding Principles for Span of Control (SOC)

- Normally, increased complexity, more work variety, and a remote working environment call for smaller spans of control in order to maximize the manager's level of productivity
- The number of direct people managed often increases with each layer deeper into the organization, as job complexity decreases and management oversight is not as critical
- Technology or other organizational systems can often help managers who would normally need a smaller span of control by providing better efficiency in managing information and employees
- Smaller spans of control often results in more organizational layers

Span of Control Advantages and Disadvantages

Narrow Span	Wider Span
Pro: Allows for close supervision	Pro: Increase autonomy for subordinates and create less administrative expense
Pro: Easier for new managers to learn management skills with smaller spans	Pro: Improves vertical communication
Con: Creates more distance between the bottom of the hierarchy and the top thus creating a “them” vs. “us” culture	Con: Offers less individualized attention to employees

Guiding Principles for Layers

- The ideal number of layers should balance the appropriate span of control necessary to run the business efficiently while keeping the organization as flat as possible
- By reducing organizational layers, managers can develop organizational flexibility, make decisions more quickly, and adjust to changing market demands
- Analyzing leadership effectiveness across the organization is one way to call attention to inadequacies of management layers

Determining Optimal Management Layers

- Do layers align with business model and corporate values?
- Do layers help coordinate various functional groups?
- Do layers help relieve management span?
- Do layers exist solely to provide a career path?
- Do layers have accountability for decisions?

Scenario - Promotion

- 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

International Transfers

- A cross border transfer is a permanent move from one country to another.
- You should pay appropriately in the new country. Do NOT simply transfer at the same salary converted to the new currency
- Pay levels for the same job differ from country to country even where currency is the same, e.g. in Europe several countries use the Euro but have different salary ranges
- Generally lateral move with no change in career level

International Transfers (cont.)

- To determine appropriate salaries for international transfers transferring to the same position in a new country use the employee's current compa-ratio and keep it constant in the salary range of the new country.
 - This methodology places the salary at the same position in range in the new country as in the old country
 - If employee's current compa-ratio is extremely high or extremely low it may be appropriate to use the new peer group to place the salary appropriately
 - Do not simply convert the current salary to the new currency
 - If transfer is into a completely different job family, then determine salary as if a new hire
- $\text{Compa-ratio} = \text{current salary} / \text{midpoint of salary range}$

Salary Increase Timing

- Use the annual 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

Salary Increase Timing

- 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

Business Justification for Off-Cycle Increases

- 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

Internal Transfers

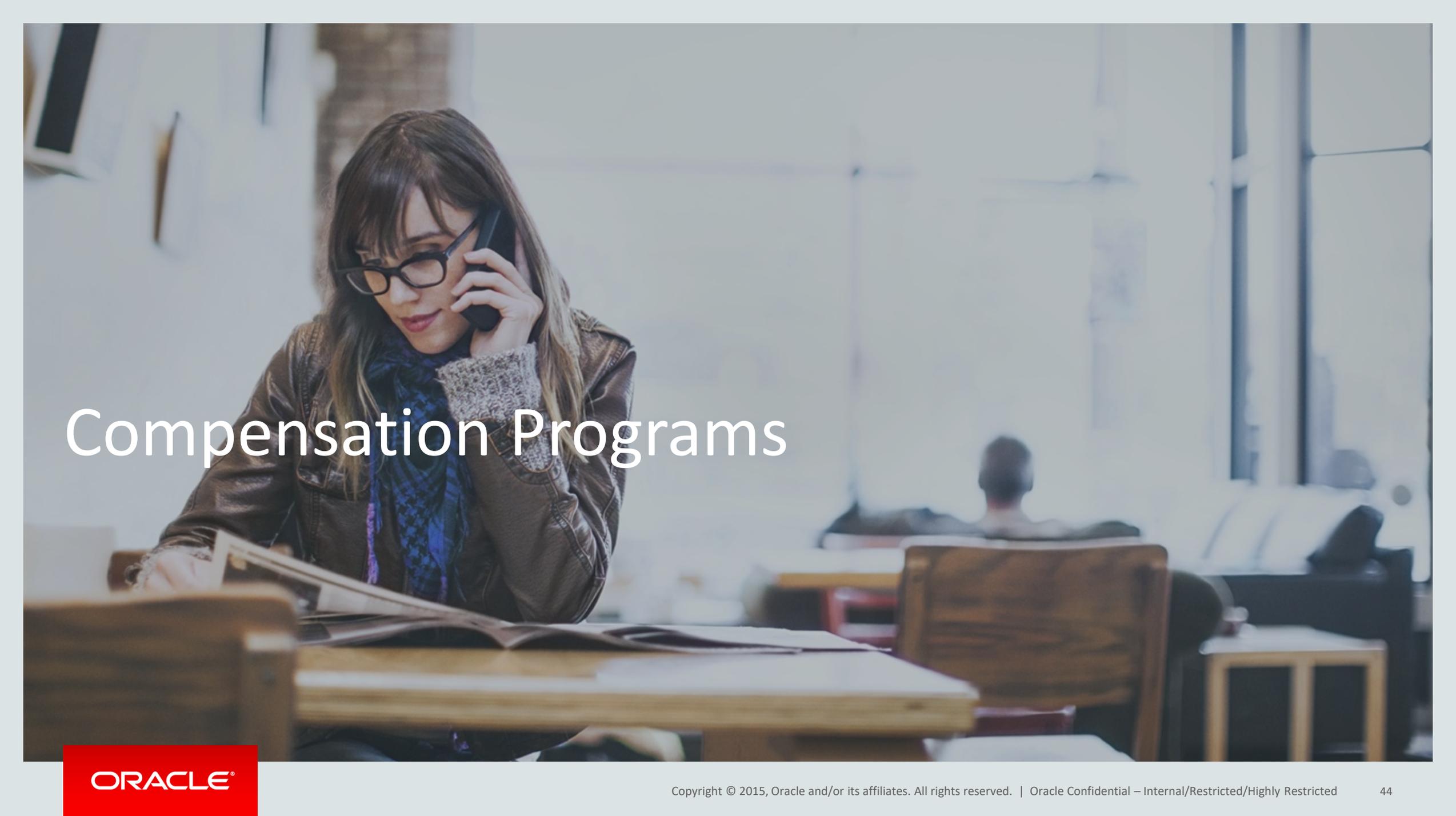
- The starting point for transfers should be lateral – salary and career level
 - Internal transfers should not be used as means to increase salaries
 - However, if the new role has a change in pay mix some adjustment may be necessary

Scenario – Internal Transfer

I have an internal candidate I would like to hire. He will only transfer if I promote him. He has the exact skill set I need for my group and we desperately need the help. I'm going to tell him that I'll promote him and give him a salary bump to ensure he accepts my offer.

Recap

- Each situation should be reviewed on a case-by-case basis but the principles should be applied as consistently as possible
- There are no absolute right or wrong or “one size fits all” answers
- Look at the whole picture, not just the position in the salary grade
 - Internal equity
 - Skills, Knowledge, Competencies, etc.
- Reasons for the decision should be documented
- The salary and benefits should be set correctly for the new position
- The increase/change in status should not be backdated

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Compensation Programs

Global Compensation Programs

- Annual Stock Program
- Global Corporate Bonus
- Sales and Non-Sales Salary Increases
- Workforce Compensation Replaces Compensation Workbench

What is Workforce Compensation?

- Workforce Compensation (WC) is an Oracle Self Service Application for managing compensation processes, allowing you to –
 - Model and allocate budgets
 - Publish (pass down) budgets to subordinate managers
 - Rate, Rank and Award individual employees
 - Review historical compensation information
 - View and download employee information for off-line work for further analysis
 - View submission status of subordinate managers

Basics for All Programs

- Budgets
 - Communicated to LOB Heads and HR
 - Each LOB may determine their own strategy/method for allocation
- Timelines
 - Corporate Deadlines
 - LOB timelines to meet Corporate Deadlines
- Eligibility
 - Review eligibility document – can change
 - M &A eligibility is dependent on agreement

Basics for All Programs

- WC Worksheet
 - Populated with eligible employees
 - Check for accuracy promptly
- Communication
 - Do not communicate anything until final BOD approval is obtained
 - Always check WC before you communicate to ensure that amounts haven't changed
 - Communicate bonus and salary increase amounts in local currency

Differences Between Programs

- Budgets

- Stock budget is a fixed amount – will not vary if employees are added or deleted
- Bonus and salary increase budgets are based on eligible salaries – changes if employees are added or deleted
- Stock budget is expressed in # of options

- Eligibility

- Different for all programs
 - Stock eligibility is based on # of employees in country and tax regulations



