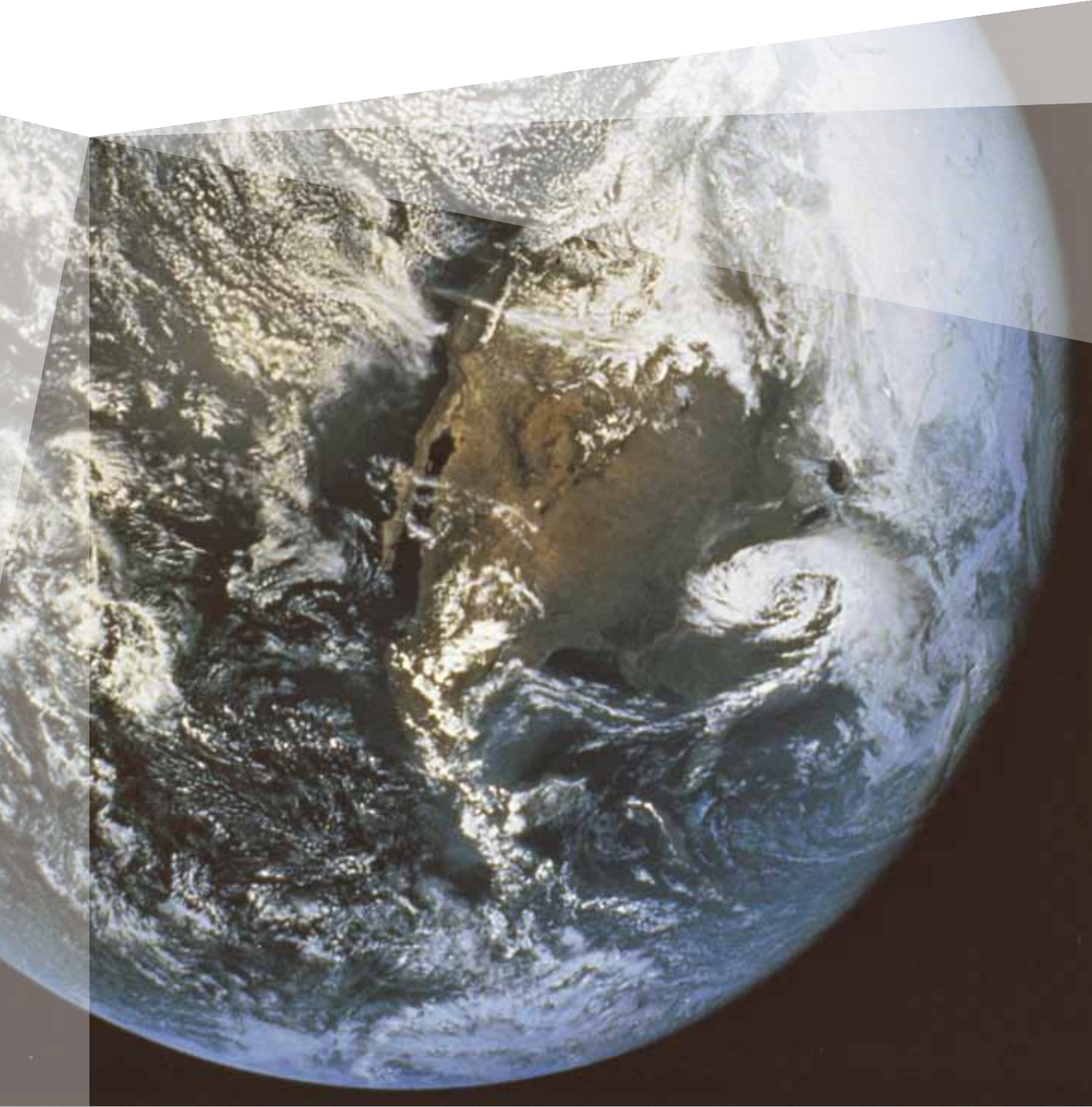


GLOBAL COMPENSATION AND BENEFITS: WHAT'S WORKING



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A year ago, few business leaders and economists envisioned a 2011 with debt downgrades and a stumble in the global economic recovery. While many occurrences are nearly impossible to predict, Mercer's global compensation and benefits experts anticipate – with cautious optimism – areas of growth and a slow return to pay increases, but they also warn about short-term setbacks and highlight workforce demographic and employee engagement challenges across geographies and workforce generations.

Since the recession, all compensation and benefits professionals have needed to place even more emphasis on what is happening in the economy. In mid-2011, when organisations thought the global recession was in the past, several markets entered what many are calling a temporary soft patch, and even companies in relatively stable economies started to face new concerns related to inflation and talent retention. And in late 2011, developments in Europe added to the pressure.

With income inequality increasing in many countries, a debt crisis and austerity plans in Europe, and additional cost pressures coming from all angles just as the war for talent reaches a critical juncture, the climate for making compensation decisions is rather difficult. All this comes at a time when employees worldwide are saying that they are motivated most by base pay and career advancement – and unfortunately, many say they are dissatisfied with what their companies offer. This presents a challenge in 2012, as conservative salary increases are expected in most regions, averaging at about 2.7%–2.8% in Western Europe and the United States.

Furthermore, to make matters worse, the reality is that organisations today do not operate in stable labour markets, as Europe's workforce in particular is shrinking and the worldwide workforce is changing in composition, education and age. Governments have been increasing retirement ages in response to the ageing of their populations, but organisations are struggling to deal with the current and future implications of ageing workforces in their people strategies.

Organisations should prepare to invest in training their older workforce segments in the right skills if they want to keep productivity levels up. Having four generations at work is obviously challenging, but creating synergies between generations – the baby boomers seem to resonate well with Gen Y, and Gen X with Gen Z – can result

in a stronger culture and increased performance. A sustainable workforce is key to competitive advantage, and more and more organisations worldwide are embarking on strategic workforce planning as part of their business planning.

AUSTERE TIMES AND CONSERVATIVE SALARY INCREASES IN EUROPE

Employees in some European countries will experience another year of below-inflation pay raises in 2012, according to Mercer's October 2011 *Total Remuneration Survey* snapshot survey data for Europe, the Middle East and Africa (EMEA).¹ Companies across Western Europe are predicting that their employees will be given pay raises averaging 2.7% in 2012. This represents the lowest increase across the entire EMEA region.

Employees in Norway are set to get the highest pay raises of 3.1%. Austria, Sweden, the UK, Belgium, Luxembourg, Italy and Germany are all anticipating pay raises of 3%. Employers in Finland, the Netherlands and France are anticipating passing on increases of between 2.8% and 3%. Employers in Greece, Spain and Malta are anticipating 2.5% pay increases for the majority of position categories, and Switzerland is looking at 2.1%–2.2%. Portugal (2.1%–2.2%) and Ireland (2%–2.3%) have the lowest anticipated pay increases. Typically, pay increases are higher in the northern states of the European Union compared with those in the south.

In countries such as Spain, the UK and Portugal, inflation is outpacing wage increases, and this is eroding quality-of-living standards. In other countries, such as Germany, Italy and France, wage increases are set to be above the rate of inflation, although in the case of France and Germany, the increases will be less than 0.5%. The 2009–2011 trend, however, is that inflation has been exceeding wage increases across Western Europe.

In the UK, companies are budgeting for a median 3% pay increase for staff across all employee groups. Inflation in the UK is running at 5%, so despite the salary increases, with high travel, petroleum and food costs, employees will continue to feel financial pressure.

¹ Mercer's *Total Remuneration Survey Quarterly Pulse Survey* analyses the pay plans of 329 multinational organisations operating across 69 countries in EMEA. The survey provides information from multinationals on median base pay increases across all employee groups, including blue-collar and white-collar workers up to the management level.

In Eastern and Central Europe, pay raises are higher, averaging 5.7% across the region. At the lower end of the scale, Latvian employees are predicted to receive a 3%–3.1% pay increase, while employees in Cyprus and the Czech Republic are predicted to see raises of 2.9%–3.4%. Lithuanian companies are budgeting for 3.1%–3.5% increases, while Hungarian and Polish employers are anticipating 4%. In Bosnia-Herzegovina and Croatia, too, pay increases of between 3.5% and 4% are expected, with slightly higher raises expected in Bulgaria (5%). Companies in Turkey, Russia and the Ukraine are predicting raises of 7.8%–8%, 9.6%–10% and 10%, respectively, although this is more reflective of the small sample groups than a regional trend. The lowest increase is set to be Montenegro, where employers are anticipating pay increases of only 1.3%–2.5%. Companies may have smaller operations in these locations, and currency considerations could mean that higher increases may not actually translate into a large cost for multinationals. However, inflation is still a factor.

There was a notable difference in the three Baltic states in Q1 2011 compared with Q3 2011, as these countries were severely hit by the global financial crisis but have bounced back, highlighted by less conservative salary increase predictions. By contrast, salary increases in Belarus, Kazakhstan and Georgia have been scaled back and are now lower than previously predicted, reflecting the economic nervousness in these states.

INCREASED USE OF VARIABLE PAY

A previous quarterly report issued by Mercer in June 2011 showed that companies were segmenting their pay raises in 2011; the largest base pay increases were focused on “rainmaker” staff in an attempt to kick-start company recovery plans following the financial crisis. Employees in managerial roles were receiving higher pay raises than those in executive positions, for example. By contrast, the latest data suggest that this has finished and that a “levelling out” is taking place, by which base pay increases are largely being equally applied across all employee groups. The data only deal with base pay – not variable pay. In the recent past, organisations with very limited budgets have focused on improving the base pay of their top performers to ensure their organisations’ survival. They are now trying to address the needs of all their employees by implementing broader increases but are increasingly using variable pay to retain and encourage their top performers – although many are also still using their base salary increase budget to further reward their highest performers.

THE MIDDLE EAST: MODEST INCREASES FOR MOST EMPLOYEES

Employers across the Middle East are forecasting pay increases averaging 7.6%. Dramatic increases are anticipated in countries such as Pakistan (15%) and Yemen (10%–13%). Companies in Israel (3.0%–3.5%) are forecasting the lowest increases in the region, followed by Bahrain (4.5%–5%), Saudi Arabia (6%), Qatar (5.5%–6%) and Kuwait (6%).

In the United Arab Emirates' unique labour market structure, nearly 80% of employees are expatriates who typically work in the region for three to five years. These employees are highly engaged, and cash is the most attractive element. Emirati employees value cash as well, but they also view the following elements as important: employer brand, job title, career development, respect and a work environment that respects religious and social commitments. For example, the employer brand should have high recognition locally and nationally, and working for such an employer should be seen as prestigious. As a result, governments and companies with strong local brands are seen as employers of choice.

AFRICA: LARGE VARIATIONS IN PAY INCREASES

This area has the largest variation in forecasted pay increases due to the diverse nature of the region and the limited number of multinationals. Companies in Algeria are forecasting increases of 6.9%–7.3%, surpassed by forecasts from South Africa (7.4%–7.8%), Kenya (8%–8.8%), Nigeria (10%) and Uganda (10%–11%). Besides base salary, employers offer cash allowances, 13th-month cheques and fringe benefits. Social security benefits are based on contributions, with varying levels of benefit where applicable, and medical provisions are offered mostly for employees, spouses and some dependents.

As for retirement funding, cross-border portable funds are a big challenge. There is a growing recognition of the value of nonguaranteed schemes. Company car allowances are extremely appreciated, and so is the option to buy the car from the company at a price below market value. Nonfinancial benefits meant to improve employees' lifestyles vary from market to market but are highly valued. As an example, in Nigeria, employees are offered home electricity generators and related maintenance as a precious benefit.

Africa's growth and opportunities require highly skilled talent and engaged workforces, but challenges for employers and HR are numerous, from attraction and retention to remuneration management skills development and HR management competencies (hindered by accelerated mobility). There is growing emphasis on job evaluation and grading to facilitate mobility at senior levels across borders.

According to Mercer's survey, 2012 salary increases in the fast-moving consumer goods, high-tech, nondurable and service industries are forecast to be in line with those in the general market, while, on average, forecasted salary increases are typically higher in the finance/banking and energy sectors. Salary increases are expected to be below general market in the durable and manufacturing industry.

ASIA PACIFIC: A BRIGHT SPOT

Asian optimism is generated primarily by China's huge economy and resources, and innovation is the source of growth and talent development. Multinationals are facing increased competition from local firms and should react with agility to the fast-moving changes in the local market. Local organisations have stopped looking at Western organisations for best practices and are trying completely new ways to get their workforces to perform at the highest productivity levels.

Asian employers focus on presenteeism² and the role of the quality of leadership in raising engagement levels. In Asia, many people work for an individual – a leader – before working for a company. While Western managers tend to judge Asian managers relative to Western standards, they should be aware of local culture and the impact of their behaviour: Asian managers may not talk much in formal meetings, but they deliver. Top executives in China are receiving higher remuneration than their global headquarters leaders in Europe, and this should no longer be viewed with surprise, since they are the ones who are delivering growth. Training and development are of special importance to employees in China, with career advancement being the top engagement factor in this market – as soon as they have exhausted learning opportunities in one firm, talented employees tend to move on to another employer.

² While presenteeism is often defined as attending work while sick, scholars have provided various other descriptions of the concept. For instance, Simpson (1998) claimed that presenteeism is "the tendency to stay at work beyond the time needed for effective performance on the job". Presenteeism could therefore be considered an act of supreme engagement and organisational citizenship.

To stay competitive in the booming Asian market's war for talent, recommendations for Western multinationals include:

- Drive global agendas while adjusting with agility to fast-changing local environments.
- Understand local workforce needs, as they vary in each market.
- Differentiate through recognition and flexibility, as "someone will always pay more".
- Focus on the "top line" before the "bottom line" in high-growth economies.
- Invest in the best talent to face unpredictable Asian competition.

INSIDE EMPLOYEES' MINDS: NAVIGATING THE NEW RULES OF EMPLOYEE ENGAGEMENT

Regardless of the economic climate, organisations face engagement problems across regions as they struggle to hold on to their best employees. Loyalty has been eroding, according to Mercer's *What's Working™* survey.³ In markets such as the UK, more than one-third (36%) of employees are not committed to staying, and a large portion of the workforce (23%) suffers from apathy – that is, they are not committed to either staying or leaving and are the most disengaged of all. Also, interestingly enough from a generational perspective, those most likely to leave are the youngest employees, who paradoxically are the most satisfied with their pay and benefits.

The business consequences of a disengaged workforce should be of great concern to all companies looking to remain competitive in today's market. Lack of engagement can result in reduced growth and profitability due to declines in innovation, customer satisfaction, operational efficiencies, organisational performance and managerial responsiveness.

Regardless of geographical and economic conditions, the talent market keeps heating up, as good workers always have options. Stakeholder performance expectations keep rising, and ongoing cost pressures demand the right workforce investments. Rather than replace key talent, many organisations are looking to build on their existing talent.

³ Note: The survey was conducted between Q4 2010 and Q2 2011 amongst nearly 30,000 workers in 17 markets to examine employees' views on their work. Results can be viewed overall as well as by age, gender, tenure, job level and industry.

To be successful at this endeavour, it is essential that employers first understand what’s going on inside their employees’ minds. What do employees value most, what perceptions do they have of work, what elements of the engagement deal are more/less important, and how do these elements vary by geography and age/generation? Based on this, organisations should then develop a blueprint that combines existing approaches with innovatory alternatives in the other components of total rewards to improve engagement, performance and productivity.

Engagement Factors: What Employees Value the Most in Europe

Rank	France	Germany	Ireland	Italy	Netherlands	Spain	UK
1	Base pay	Base pay	Base pay	Base pay	Base pay	Base pay	Base pay
2	Type of work	Type of work	Job security	Type of work	Type of work	Type of work	Type of work
3	Bonus/other incentives	Bonus/other incentives	Type of work	Career advancement	Retirement savings or pension plan	Flexible work schedule	Bonus/other incentives
4	Career advancement	Flexible work schedule	Good workspace	Bonus/other incentives	Working for respectable organisation	Training opportunities	Retirement savings or pension plan
5	Supplemental retirement plan	Working for respectable organisation	Career advancement	Retirement savings or pension plan	Paid time off	Career advancement	Flexible work schedule
6	Private medical insurance	Training opportunities	Bonus/other incentives	Training opportunities	Training opportunities	Paid time off	Paid time off

GENERATIONAL INSIGHTS AND ENGAGEMENT IMPLICATIONS

Mercer’s *What’s Working* survey revealed differences by age group in what employees value. For example, compared to the overall workforce in their markets, the youngest groups of workers (ages 16–24 and 25–34) in Mercer’s survey are more satisfied with their organisations and their jobs and are more likely to recommend their organisation as a good place to work, but they are also much more likely to seriously consider leaving their organisation at the present time.

Employers face the dilemma of accepting the situation or trying to change the employment habits of younger workers – by making significant upfront investments in new employees in terms of onboarding, training and development as they replace employees who leave, or by directing more resources now to retaining disengaged or apathetic employees.

The answers to these questions will vary by organisation, but they present economic and talent implications for all of them. It is essential for each company to understand its own unique value equation and whether a business case can be made to retain and extend the tenure of young workers.

EMPLOYEES WANT MORE TAILORED BENEFITS – AND FLEXIBILITY

Employers can use their health and benefits packages strategically – not just to improve the health of their employees, but also to create a happier, more productive workforce. Progressive employers are also using flexible benefit plans, with a range of short- and long-term incentives, to facilitate cost sharing with employees, while enhancing the perceived value of benefits.

There is a distinct enthusiasm for changes in benefits provision, particularly amongst younger staff, which provides an opportunity for companies to better engage them and save costs during this period of financial uncertainty. Indeed, the desire by employees for greater choice continues to grow, although concern remains that employees are not sufficiently able to make informed decisions when the choice is available. Employees are looking for employers to use their bulk purchasing power to provide employees significant discounts on various products and services.

More and more companies are asking their employees what type of benefits they prefer and providing them with some degree of additional choice as well as introducing some very simple, low-cost benefits that meet employees' needs today, such as health screenings, debt management schemes and personal car leasing. Many young employees enter the workforce with student loan debts and try to fund house deposits, buy a car, raise children and cover childcare and education costs, and employers could offer additional alternative benefits that meet such lifestyle demands. New meaningful benefits are immediate, cost-effective and can act as a foil for the low pay increases and limited career advancement prospects created by the poor economic conditions.

RECOMMENDATIONS FOR BOOSTING EMPLOYEE ENGAGEMENT

- Keep base pay, career planning and promotions within market parameters and based on performance – both individual and company.
- Discover the employee value proposition – what’s most important to your workers – and build a compensation plan with that in mind.
- Align reward programmes with business strategy and use workforce segmentation to more effectively allocate limited rewards investments.
- As young people enter the workforce and baby boomers look to exit, consider the changing generational diversity and the needs of different segments.
- With budgets remaining tight, embrace total rewards and look at other creative ways to engage workers, such as career development, work/life balance and flexible benefits.

For more information on employee engagement and Mercer’s *What’s Working* surveys, visit www.mercer.com/insideemployeesminds and www.mercer.com/whatsworking.

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