

MERCER

Compensation Planning 2012

A review of today's hot issues
and strategies for the future

Compensation Planning 2012

The current situation

Just when organizations thought the global recession was in the past, several markets are entering what many are calling a temporary soft patch. And even organizations in relatively safe economies are facing new concerns related to inflation and talent retention. In this rapidly evolving global economy, there aren't many certainties or even lasting trends. But one thing remains constant: An organization's talent is vital to its growth.

Around the world, organizations are taking a serious look at attracting, retaining and motivating key talent, but many are struggling with the details. Among the lingering questions are: Do we focus more on base pay? Do we weight more heavily toward incentives? Should we invest more in training and career planning?

A global examination

To help organizations plan for uncertainties, Mercer compensation experts worldwide offer the latest data, trends, insight and forecasts into compensation planning. Our intent is to help organizations design and implement a compensation program that aligns with current business strategy, is affordable and sustainable, drives productivity, and engages key talent. We'll start with three foundational questions.

Three critical planning questions for 2012

1. What is the current state of employee engagement and how will it factor into 2012 rewards strategies?
2. What are the current economic and business environments and how will they factor into 2012 pay levels?
3. What are Mercer's compensation experts' predictions for 2012 and beyond?

What is the current state of employee engagement and how will it factor into 2012 rewards strategies?

Summary

The global recession struck some markets more severely than others, and the recovery appears to be just as selective. Still, regardless of the varying outlooks, by market, practically all regions are facing an engagement problem and companies are struggling to hold on to their employees. This comes at a time when employees worldwide are saying, according to Mercer's *What's Working™* survey, that they are driven most by base pay and career advancement – and unfortunately, many say they are dissatisfied with what their companies offer.

Actions to consider

Refocus on base pay and career planning and promotions, but keep decisions within market parameters and based on performance – both individual and company:

- Make reward decisions based on your employee needs and motivation.
- Communicate and let employees know about their options, benefits, career paths and training.
- Discover the employee value proposition – what's most important to your workers – and build a compensation plan with that in mind.
- Use workforce segmentation to more effectively allocate limited rewards investments.



Australia

In Australia, 84% of workers said that benefits are important to them and a sizable portion said that benefits influenced their decision to join their company. But only about half said that their overall benefits package is good. This highlights an ongoing disconnect between the benefits employees want and the benefits employers think employees want, which is leading to high levels of dissatisfaction. Employers are underestimating the importance of nontraditional benefits, such as discounted private health insurance and lifestyle benefits, and failing to recognize a subtle, yet important, difference in views of workers by age and by gender.

Brazil

Due to the lack of a qualified workforce for some industries and the forecast of three million new jobs in 2011, the war for talent in Brazil, employee engagement and retention are top priorities. Companies have to review and change the employee value proposition. New entrants into the workforce are shifting employee values, placing more emphasis on personal accomplishment, opportunities for training and career, and fair pay for their contributions.

Canada

Employees are increasingly dissatisfied with many aspects of the work experience, to the point where one in three is seriously considering leaving. A further 22% of workers are “indifferent,” not committed to staying or going, and suffer from the lowest engagement scores in Mercer’s recent *What’s Working* survey. Both of these groups should be of critical concern to Canadian companies. Three of the seven engagement drivers are related to rewards, and base salary is the most important compensation element across all employee age groups. Organizations need to ensure that their rewards programs are aligned with company values, that pay is competitive and internally fair, and that bonus programs are well-designed and motivational.

China

Many organizations – both multinationals and local companies – have experienced an increasing turnover of key talent since the beginning of 2011, and Mercer expects this trend to continue well into 2012 and beyond. Mercer’s recent Attraction and Retention Survey 2011 and *What’s Working* survey (see Exhibit 1) both show that career development and base pay are the top two elements in an employee’s value proposition. In order to increase key talent retention, organizations need to take a holistic view in preparation for their 2012 rewards strategies, by considering retention programs that focus on career development or promotion opportunities along with base pay growth.

France

Base salary ranks as the most valued element of the employment deal, with bonus/incentives ranking third, according to Mercer’s *What’s Working* data. As such, salary increases are viewed favorably and assist in engaging employees. Organizations, however, must respect both internal equity and performance management.

Exhibit 1: The employee value proposition, by market

Mercer recently conducted its global *What's Working™* survey of 30,000 workers in 17 markets. Below are findings of employees' top drivers of "the deal," by location. For more on this study, go to [mercerc.com/insideemployeesminds](https://www.mercer.com/insideemployeesminds).

Market	Most valued	Second reward element
Argentina	Career advancement	Base pay
Australia	Base pay	Type of work
Brazil	Career advancement	Base pay
Canada	Base pay	Retirement savings/pension plan
China	Career advancement	Base pay
France	Base pay	Type of work
Germany	Base pay	Type of work
Hong Kong	Base pay	Bonus/other incentives
India	Career advancement	Base pay
Ireland	Base pay	Job security
Italy	Base pay	Type of work
Mexico	Base pay	Career advancement
Netherlands	Base pay	Type of work
Singapore	Base pay	Bonus/other incentives
Spain	Base pay	Type of work
UK	Base pay	Type of work
US	Base pay	Retirement savings/pension plan

Germany

Companies are more actively focusing on employee engagement, as some signs point to a possible positive economic outlook. Recent employee surveys show that a pay package, including pension benefits, is important to employees, as are job accountability and direct management leadership. Career advancement, in addition to focused training and development activities, also is valued. With this in mind, companies need to balance pay and career development decisions with keeping pay levels in line with median market practice and within parameters based on individual and company performance.



Hong Kong

Employees in Hong Kong, for the most part, know that if they work hard, they will be rewarded through higher base pay, bonuses and career-advancement opportunities. In this “cash is king” culture, workers are not as motivated by fulfilling work as they are by higher pay. In addition, while there is an emphasis on economic growth, employers are likely to look for ways to make their compensation less divisive and more long-term. This has led to reviews of bonus programs, sales plans, long-term incentives, deferred compensation and retirement benefits, and an increased interest in job evaluation and leveling programs.

India

Current attrition levels are quite high, especially among executives, employees with three or more years of experience and those with in-demand skills. For the emerging professional, reward strategies will need to focus on career management, including training, development and job rotation. In order to retain employees and fulfill their career-growth aspirations, companies must offer clearly defined career paths, multiple grades at low- and mid-managerial levels, and the promise of regular promotions to top talent.

Italy

The current state of employee engagement in Italy is relatively low due to a negative general economic outlook. Companies are still struggling for survival as a result of both the crisis and the increases in hostile acquisitions from international players. The recent economic downturn has further deepened some negative issues, such as the substantial public debt, the need for structural reforms and the very high labor and retirement costs for employers. Moreover, after-tax net compensation in Italy is lower than in other European countries. Consequently, when companies set compensation policies for their employees, they have to consider the declining purchasing power of families. Employees are giving higher importance to the tangible elements of total rewards and are focused on short-term consumption needs.

Japan

Job security for average performers and development opportunities for high performers are still important factors in employee engagement. In fact, job security has taken on a new level of importance, following the psychological impact of the recent Japan earthquake. If the economic landscape remains weak heading into 2012, employees can expect limited pay increases.

Mexico

In Mexico, employee engagement presents an interesting dichotomy of opinions in which employees say they are loyal but want to leave. This provides an opportunity for companies to take a fresh look at the employee value proposition. As new generations enter the workforce, values are shifting and employers are being forced to be more creative and innovative in their approaches to improving the sense of belonging and career advancement.

The Netherlands

Dutch employers would like higher levels of employee engagement but are experiencing limited success due to cost containment and a short-term focus on immediate financial results. Employee engagement and productivity are low in the Netherlands as a result of employment uncertainty, limited career advancement and barriers to changing organizations. Top talent is scarce, which results in a premium being placed on its demands. Base pay, type of work and retirement savings or pension plans are the top three most-valued elements of the “deal” from an employee perspective. Bonus and other incentives continue to be out of favor. In 2012, companies will have high pay increases and benefits for key employees, while trying to engage the rest of the employees with low-cost/high-value benefits.

Nordics

Employees and organizations still feel somewhat stretched from cuts following the 2008 recession. Moreover, keeping salaries current with 4% inflation is a challenge for many organizations and calls for novel pay solutions. Increasing levels of employee turnover will further polarize pay markets, especially with younger workers, many of whom are not engaged and do not feel connected with company goals. More organizations are considering workforce segmentation strategies, while volatility, risk and short-sightedness are applying pressure on salary levels.

South Korea

Employees in South Korea generally place a high premium on base pay increases. And while recent years saw freezes and cuts, employees will expect at least a modest increase as company performance improves. This could lead to employers increasing pay levels to engage and retain key employees.

Southeast Asia

Although employee engagement is much higher than it was several years ago, employees continue to look outside, due to increased opportunities driven by good business results and bullishness on the future. This may temporarily slow down as employees wait out their year-end bonuses and sit tight, with rising economic uncertainty driven by volatile stock markets and debt issues worldwide affecting economic conditions. This provides companies at least three to four months to build up cash for retention for when ASEAN economies regain confidence and restart their recruitment.

Spain

Though employees know their companies are facing difficult times, a high level of engagement remains. This is a terrific time to rebuild relationships with employees and to look more toward growth and talent retention. Reward strategies will be more segmented, clear and transparent, and focused on individuals' needs.



Switzerland

Overall, employees are engaged, although some employees in certain industries (financial services, exports) fear impending job cuts and are therefore focused on job security. Some employers face talent shortages in specific job families, which will lead to a war for specialty talent. For talent that industries and companies deem vital, these employees will remain well compensated, but reward strategies overall are expected to stay the course.

Turkey

Turkey, with a 9% increase in GDP in the first six months of 2011, is experiencing the fastest growth rate in Europe, second globally only to China. Global retailers are entering Turkish markets, local producers are growing and exporting, and Turkish conglomerates are trying to expand their brands, especially in Eastern Europe, the Commonwealth of Independent States countries and the Middle East. Meanwhile, the unemployment rate remains high and nonqualified labor cost is still low. Fast GDP growth is accompanied by relatively high inflation of about 7% to 8%. The Turkish lira has recently depreciated against the US dollar and the euro, so expect salary increases at around 8% to 9%.

United Kingdom

Post-recession employee engagement is lower than before the recession, with 36% of employees seriously considering leaving their employers, compared with 28% in 2006. The position is worse for senior managers and employees 24 years old and younger. Base pay, incentives and type of work, respectively, are the top three value propositions of the “deal” from an employee perspective. Employers are focused on growth, cost containment and employee engagement and will continue to target rewards toward key segments, hold base pay increases to below inflation and place greater emphasis on incentives.

United States

US employees are increasingly dissatisfied with many aspects of the work experience – to the point where 32% are seriously considering leaving their companies. This current mood is not surprising and can be directly tied to the economic downturn that began in 2007. To keep business afloat, employers are faced with significant cost management choices, including reductions in human capital expenditures. This leads to furloughs, workforce reductions, tightened compensation budgets, pay freezes and cuts in training and recognition programs. As a result, employee loyalty is eroding, widespread apathy is common and generational tensions in the workplace are growing.

What are the current economic and business environments and how will they factor into 2012 pay levels?

Summary

After breathing a sigh of relief following the recent global economic woes, some economists say that many organizations throughout the world are again seeing a possible short-term return to stagnant growth. For those regions fortunate enough to have higher growth levels, they face their own concerns, such as wage inflation. For most, this does not mean a return to cuts and downsizing, but in real terms, it could signal a temporary period of flat pay increases compared with the local consumer price index.

Actions to consider

- Ensure that every position is necessary and makes a significant impact on company performance.
- Educate employees on pay for performance and how their pay is determined.
- Continue a measured, long-term approach, and don't "throw money at the problem."



Australia

The domestic labor market will remain tight as long as the investment boom gathers momentum. Increasing pressures include a stronger labor market, an increasing consumer price index and rising interest rates. The forecasted 4% median employment cost is expected to remain constant through 2012.

Brazil

Brazil continues its pace as a growing world leader, with an expanding internal market, controlled inflation, equalized internal and external debt, and a relatively solid financial system. The 40% appreciation of the Brazilian real (in absolute terms since 2006) has led to capital inflows, but it threatens the Brazilian economic growth cycle. Pay levels are expected to lead to inflation in 2012, after 2011, during which 93% of salary adjustments were higher than or equal to inflation.

Canada

The Canadian economy continues to grow, albeit slowly, and, unlike most other developed countries, there has been substantial employment growth in the past year. According to The Conference Board, this pattern will continue into 2012 as Canadian interest rates remain low, governments have clear plans to balance fiscal budgets and demand for commodities remains relatively strong. Despite this positive outlook, many employers will move forward with caution – constantly assessing Canadian and global market conditions before committing to final salary-increase budgets for 2012. At this point, Mercer is expecting average salary increases to be 3.1% nationally, with virtually no freezes expected.

China

The economy has been growing steadily, with a continuing inflow of foreign direct investment; however, growth rates are down from double digits to high single digits. Inflation is on the rise. In July 2011, inflation jumped to 6.5% (annualized) – the highest in the last 37 months – and the renminbi (RMB) has appreciated against the US dollar since the beginning of 2011. These events, in part, have caused stock market volatility and have cast uncertainty over the prospect of continuing economic growth for the coming year. Increased inflation pressure and currency appreciation should be significant factors for organizations that are planning next year's pay-increase budgets.

France

In France, we are expecting continued high unemployment (nearly 9%), low GDP growth, low inflation (about 2%) and a reasonably high level of corporate profitability. In this context, companies should consider incentives (profit sharing or other collective incentives plan) to avoid recurring costs.

Germany

We're seeing continued good economic development in 2011, with a GDP growth rate of 2.7% and solid company performance. Industries such as engineering and automotive have good orders on the books, with some signs of problems filling open positions. The positive outlook is overshadowed by country debt, which may cause a slowdown. In 2012, we expect pay levels to increase overall due to good company performance, and this will make up for recent shortfalls. Average pay increases next year will possibly range from 2.5% to 3.5% for professionals and 3% for management and key experts.

Hong Kong

In Hong Kong, a lot of uncertainty in the financial markets is trickling down to the labor markets. In making compensation plans for 2012, companies are likely to set budgets as if in an economic slowdown. Economic growth is not as strong as it was in 2010, when GDP grew by 7.0%. As of June 30, growth was 5.1% over the prior year, with a 0.5% decline in the second quarter. Growth will be slower than last year, and some predict a further contraction in Q3 and Q4. Headline inflation in Hong Kong has been rising rapidly, from 2.9% in December 2010 to 7.9% as of the end of July 2011. If these trends continue, we could be entering a phase of stagnating growth combined with high inflation. Mercer's latest predictions for salary increases for 2012 stand at around 4.8%; with inflation at 7.9%, the real salary increase is negative.

India

Domestic demand continues to be quite robust in India, and many organizations are focusing on driving business in the domestic market. There is also a lot of optimism about exploring rural markets. India, however, continues to be dependent on global economic conditions, and the economic forecast for the next 12 to 18 months could be described as cautiously optimistic. Pay levels will continue to see low double-digit increases in 2012, due to both inflation and talent shortages.

Italy

The economy has shown moderate growth over the past two years of between 1% and 1.3%, based more on exports than on internal demand. Furthermore, in order to keep the same quality of living, families are reducing their saving rates. Salary increases will remain conservative as companies deal with efficiency issues and budget restrictions. There are a few exceptions where overperforming companies in niche markets and highly specialized industries with double-digit growth are focusing on attracting and motivating talent.

Japan

In the midterm, the adverse impact to the Japanese economy following the Japan earthquake is limited due to the earthquake having struck the Pacific Ocean coast, which only accounts for 2.5% of the total economy. The Cabinet Office forecasts that Japan's growth will be positive, but recent appreciation of the yen and the global economic slowdown will adversely influence company performance. With so many fluctuating factors, 2012 pay levels are unpredictable at this time.



Mexico

Mexico is experiencing moderate growth after a troubling 2009 and 2010 wrought with challenges related to the influenza pandemic as well as the increasing drug-related crime, mostly in the northern region. This year has brought relative growth and stability, and there is currently a solid inflow of foreign investments and investments of Mexico-based multinationals around the world. Pay levels are expected to have inflationary tendencies, reflecting the increased talent needed by companies operating here.

The Netherlands

The Dutch economy is expected to be back to its pre-crisis level no earlier than the second half of 2012. The labor market might then begin to set the terms, forcing organizations to change from “nothing is possible” to “tell me what you want,” especially for talent that can build new business. Executive pay, and especially bonus pay, will be under continued political and societal scrutiny, resulting in even more creative (long-term) incentive constructions.

Nordics

Prospects of job cuts are still lingering, but at the same time, competition for top talent is increasing. This will probably lead to a higher pay spread in organizations. In the current economic climate, only a select few organizations can afford to fund a pay progression in real terms. Furthermore, with pockets of fast-growing sectors, such as mining, we can expect a widening of industry pay differences.

South Korea

Many in South Korea fear a return of the recession due to movement after the US credit downgrade. Other economic indices (such as oil prices, exchange ratios, etc.) also may cause companies to hesitate in investing in business and people. If the current economic uncertainty does not clear, it could mean a flat year for compensation increases in 2012.

Southeast Asia

With the economic uncertainty driven by volatile stock markets, the US debt rating downgrade and debt problems in Europe, many employees may choose to take shelter within their own companies and wait out the payment of year-end bonuses.

Spain

The current economic and business environments show some signs of improvement, which will have an impact on pay levels. The payout for short-term variable pay will be higher, as it aligns with better business results, and salary increases for 2012 will be around 3.1%, after several recent years of flat increases.

Switzerland

Switzerland is experiencing a stable economic business environment, but many expect this to slow down. All industries, especially export and tourism, are suffering from a strong Swiss franc. Inflation is currently nonexistent, which signals modest pay increases for 2012.

Turkey

Employee engagement is still an issue for Turkish companies due to the country's young population and evolving engagement drivers. In Turkey, base pay remains an important factor to attract and retain talent, and employees feel more confident when base salary is at least on a market median as a sole source of guaranteed income. Variable pay, on the other hand, is based on employer discretion and is viewed as an extra benefit to consider when selecting employment. Potential employees also place importance on health insurance, company car, job security and company reputation. Gen Y workers also seek opportunities where they can learn and develop careers.

United Kingdom

The UK economy is growing slowly, at about 1.5% annually, and inflation has risen from about 4% to 5% – much higher than the 2% target. An uneasy business confidence will lead to talent strategies focused on workforce groups that can drive growth and on greater pay segmentation. Costs will be tightly contained, job growth will be limited and base pay increases will be below inflation. Executive pay will be influenced by regulatory trends, with a stronger focus on company rather than comparative performance. This will result in greater use of deferred bonuses and restricted stock to encourage executives to take a longer and risk-adjusted perspective of performance. For critical talent, pay levels will continue to rise.

United States

The US economy has lost seven million jobs since 2007 and remains in the grip of a weak and largely jobless recovery, which will constrain human capital spending. Average salary increases, although slightly higher than last year, will remain at 2.8%. Expect greater salary increases in 2012 for specific skilled jobs and top performers at the expense of others. Salary freezes are down for a second consecutive year and will most likely continue to decline into 2012. Companies also are placing more emphasis on variable pay programs for top producers to contain fixed costs while providing an incentive for segments. And while non-cash rewards such as training and career advancement enhance retention, base and variable pay remain important to the employment deal.

Compensation decision 2012

For additional information and resources, visit our landing page at www.mercer.com/compensation2012. You will find video interviews with Mercer compensation experts from around the world and a resource center designed to help you make effective compensation decisions for 2011 and beyond, so you can attract, retain and reward the talent your organization needs to succeed.

What are Mercer's compensation experts' predictions for 2012 and beyond?

Summary

Last year, few business leaders and economists envisioned a 2011 with debt downgrades, natural disasters and a stumble in the global economic recovery. While many occurrences are nearly impossible to predict, Mercer's experts peered into 2011 and were cautiously optimistic; they saw areas of growth and a slow return to pay increases, but they also warned about short-term setbacks.

The same holds today, as 2012 appears to continue the path to recovery, with periodic bumps and an air of cost constraint along the way. Organizations can weather the rough patches by focusing on talent, pay for performance, communication, workforce segmentation and engagement.

Actions to consider

- As young people enter the workforce and baby boomers look to exit, consider the changing generational diversity and wants and needs of different segments.
- With budgets remaining tight, look at other creative ways to engage workers.
- Based on an understanding of what drives employees, consider career development, work-life balance and benefits to try to retain your best talent.
- Continue to align reward programs with business strategy.

Australia

Organizations must remember that one size does not fit all and should keep the generational mix in mind when designing future talent strategies. For example, baby boomers, who are beginning to reach retirement, currently make up 24% of Australia's labor force; this drives the need for generational diversity.

Brazil

Human capital management is more strategic than ever in Brazil and it will drive business decisions and competitive advantage. Pay for performance is already a reward trend in Brazil, and companies are using this to differentiate, retain and motivate high performers. Due to the struggle for talent, hiring bonuses are back and will continue to be used in 2012. Employees will continue to switch companies in order to advance their careers and get higher pay.

Canada

Mercer is expecting 2012 to be another year of getting the basics right: ensuring base salaries are market-competitive; investing in all aspects of the performance management process; and making the clear linkage between performance, contribution and rewards, both in merit increases and in short-term incentive plans. 2012 and beyond will see increased flexibility and employee choice around the total rewards package, with the intent of maximizing the perceived value of the package while managing costs. Offering choice and flexibility in total rewards, although somewhat challenging to design and administer, clearly demonstrates an employer's recognition of employees' diverse preferences and needs.

China

With ever-intensified talent competition and aggressive growth plans, organizations will tend to take a more holistic approach toward reward strategies. More organizations will look to workforce segmentation and to total reward elements, such as careers, work-life balance and benefits, to address talent attraction and retention challenges.

France

Mercer predicts a salary increase budget of around 2.5%, with a particular focus on the lowest salaries (in order to protect employees' purchasing power) and on pay equity; an increased number of incentive plans to recognize the employee contribution to profitability; and a priority on career development, permitting employees to acquire or improve their skills.

Germany

Reward strategies need to focus on total rewards, recognize performance and market developments, and provide a clear message to employees on how their investments will be valued. This can include an attractive pay package as well as career opportunities. Career levels need to be transparent, objectives should be linked to overall company performance measures, and leadership needs to maintain and develop the DNA of the workforce that drives sustainable growth.



Hong Kong

We predict more moderate increases in 2012 than in 2011 as the market turns somewhat risk-averse, as we saw in 2008 and 2009. We expect ongoing interest in long-term incentives and deferred compensation programs. Hong Kong has seen many ups and downs throughout its history, but employees and employers are resilient, flexible and pragmatic so that adjustments can be made as they become necessary.

India

In India, there likely will be two strategies based on generational and job levels in the organization. The reward strategies for entry-level professionals and Gen Y workers will focus on a combination of market-competitive cash compensation and investment in skill and career building. At the executive level, the focus is likely to be on retention and, therefore, competitively fixed; performance-based short- and long-term variable pay will become prominent. Companies with diverse employee age groups are likely to consider flexible benefit plans and may adopt these after undertaking a significant cost-benefit analysis. The steep year-over-year increase in medical insurance costs may result in some changes to medical programs in the form of copays for extended family coverage and wellness programs for education and prevention.

Italy

For 2012 and beyond, Italy is expected to see the following trends in compensation:

- Flat to moderate increases in base salary
- Increase of pay-for-performance linkage in short-term incentive systems
- Higher leverage in short-term incentive opportunities for selected segments
- Decrease in the use of long-term incentives to save HR costs
- Decrease in the use of equity or equity-based incentive instruments due to stock exchange underperformance
- Increase in disclosure practices due to demanding and evolving regulations
- Increase in the sensibility of shareholders and stakeholders concerning compensation-related issues

Employers should strengthen engagement and redefine ways to connect with the workforce and foster a commitment to intangible drivers and new performance demands, focus on reward investment return, increase segmentation, and enhance communication.

Japan

Companies are still very cautious about granting base pay increases for domestic employees. Organizations will continue to focus on acquiring management talent for overseas operations and also invest more in leadership development for selected high-potential employees.

Mexico

Rewards will continue to drive pay for performance and results. More emphasis will be placed on the design of rewards in line with factors and indicators that employees and employee groups can influence. There is a slight trend away from entitlement-based programs toward variable rewards that truly link the employee with the job for which he or she is hired, as well as accountability for the results of that contribution.

The Netherlands

Best-in-class employers will develop reward strategies that allow them to adjust to rapid changes in the labor market. Emphasis will be put on work content instead of pay and career advancement. More focus on work content will lead to better linkage of performance with variable pay and could also increase employee engagement. However, a close watch on the perception of bonuses is necessary.

Nordics

Pay spreads will rise, and top talent will receive a bigger slice of the pie. Financial constraints will spark creativity, and some non-taxed and low-cost perks could make a comeback. Also, many corporations have started to audit and review pay and benefits packages to check for relevancy.

South Korea

If the global economy cannot overcome this current economic situation quickly, business uncertainty will continue and employers will have to worry about motivation and retention of key talent using limited budgets. Organizations must turn their attention to reward strategies and talent segmentation that are in line with business strategy.

Southeast Asia

In addition to pay, career development remains very important. This will be a good opportunity for employers to review and formulate targeted employer value propositions that address high-risk employee groups and continue to attract highly valued talent externally.

Spain

In the near future, Mercer sees reward strategies based on pay for performance, with an eye on internal equity and market levels. Also, organizations will need to develop new approaches for short- and long-term incentive schemes, linking business success with pay levels. Other trends include improved goal-setting processes, increased deferral pay and redesign of retirement savings or pension plans.



Switzerland

In Switzerland, Mercer does not expect a change in the pay mix for most organizations. Short-term incentives will depend on the companies' financial results. Also, organizations will focus on non-financial rewards, such as additional vacation instead of compensation increases. On the senior executive level, organizations should focus on long-term incentives, rather than short-term, with performance conditions on deferred compensation.

Turkey

The scarcity of qualified talent continues, and most companies are facing succession-planning issues. We expect employers to focus on keeping high performers, high potentials, key talent and leaders by differentiating remuneration packages and establishing total reward strategies that pay for performance. Also, long-term incentives (LTIs) will be a good retention tool, although they have been utilized sparingly due to the lack of regulations. Now, under new Turkish trade law, LTIs will be an increasingly important component of the total reward strategy.

United Kingdom

Employers will develop and maintain reward strategies that effect growth, contain costs and improve employee engagement. There will be greater emphasis on incentive programs at all levels, extending their prevalence among all parts of the workforce and tightening alignment with company performance. The overall cost of pay will be contained as employers minimize inflationary pressures. Employer and employee priorities have become out of step, and employers will invest more in ensuring that reward strategies are more closely aligned with what employees value and the delivery of better performance. In light of employees' concerns about job security, the quality of work they do and the work environment, employers will take a more balanced view of rewards by addressing career and performance management as well as the work environment.

United States

The gap between high- and lower-performing employees is widening significantly. Mercer's survey shows that the highest-performing employees (8% of the workforce) are expected to receive average base pay increases of 4.6% in 2011 compared to 2.8% for average performers (54%) and 0.4% for the weakest performers (2%). In this environment, top-performing employees are an employer's competitive weapon, and companies are doing their best to reward them. The top prediction for 2012: More organizations will develop and implement a segmented rewards strategy. To do this, companies must identify employee performance drivers across job families, job levels, business units, geographies and performance groups to determine where to place limited compensation dollars. This means surveying employee groups and marrying data with the companies' future business strategy.

More information

The previous snapshot by country was provided by Mercer compensation experts located in each respective country. For more insight on the countries and their regions, contact the following:

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