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Job market booming, but beware 'variable pay'

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The slowdown is becoming a distant memory with the job market booming again. But what's happening on the salaries front?

Experts say it's foolhardy to expect hefty hikes in the fixed portion of your pay as of now. Companies will offer that dream packet, but a large percentage of it will be the variable component. Which means your hike will be meaningful only if your and your company's performance matches or beats expectations.

"The variable component will keep increasing as firms want to induce accountability in their workforces," said Ronesh Puri, managing director, Executive Access, an employee search firm. He said the trend is getting increasingly visible in the IT, BPO, retail and insurance sectors, particularly in the sales domain.

Yogesh Saigal, a Delhi-based human resources consultant, said if at all there are hikes in the fixed component, they would be minuscule, "7-8%".

Till recently, the variable component typically constituted about 10% of one's pay. But the proportion is going up significantly. "At the junior level variable would constitute 15-20% of total pay, while for seniors, it could comprise 30-40%," Saigal said.

What is going to happen is this: Say your cost to company (CTC) is Rs6,00,000 per annum.

If your fixed-to-variable pay ratio is 90:10, then 10% of Rs6,00,000, or Rs60,000, is what you have been getting if your performance has been meeting expectations.

Now, say your CTC is hiked to Rs6,50,000 per annum, but simultaneously your fixed-to-variable ratio changes from 90:10 to 80:20. Then, 20% of this CTC, or Rs1,30,000, is what you will get depending on your performance.

In other words, where you have been so far getting Rs5,40,000 (Rs 6,00,000 minus Rs60,000), irrespective of performance, your assured remuneration will decline to Rs5,20,000 (Rs6,50,000 minus 1,30,000) after the hike.

From the employee's point of view, therefore, hiking variable pay does not mean much. "If you perform, you get the rewards, or else not. It's as simple as this. The fixed-to-variable ratio has been getting skewed in favour of variable and this trend will only increase," Saigal said.

From the employer's point of view, this is a good way of ensuring employee commitment. While steep pay hikes hurt, it is important to reward deserving candidates.

"No one wants to make the mistake of giving generous hikes and then repent," says a senior human resources official from an IT firm in Bangalore.

"There are two reasons for this. First, employees often use hefty hikes to secure better deals from rival firms. Secondly, though the environment suggests a recovery, firms would like to be cautious in opening their purse strings."

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