

Cos Hike Variable to Retain Talent

THE CARROT: Some increase it to 50% for senior roles over the past year; move also aimed at reducing wage-bill liability

Big Draw: Variable Pay Trends



Figures are indicative

All in a Year

IT, ITeS, e-commerce, FMCG, pharma have mainly hiked variable

Greater variable payouts in consumer and pharma in 2011

Variable as percentage of annual guaranteed cash went up in 2011 v/s 2010 in IT

Compensation in IT and FMCG will have a split of 50:50 or 60:40 for CXOs

Benefits of Increase in Variable



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Partner-in-charge, Heidrick & Struggles

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Sensing the need to retain talent in a tough market, companies across sectors are tying the performance and fortunes of employees with their own, and are attracting mid-to-senior-level employees with a substantial hike in variable pay in comparison to fixed pay without taking a hit on immediate costs.

Search firms like Executive Access, Elixir Consulting and Global Hunt and Mercer point to a hike in variable pay in proportion to the fixed pay by companies over the past year in a bid to retain talent.

"To stay within tight budgets and motivate their skilled workforce, some companies are shifting their employee compensation structures from a fixed-pay approach to one that relies more on variable compensation," says V Muninder Anand, director, information product solutions at Mercer. Arjun Srivastava, head, consumer practice at Egon Zehnder International says he is witnessing a 10% to 15% rise in compensation levels across the board and the hike in variable pay has been more than fixed pay.

Ronesh Puri, managing director of search firm Executive Access adds: "The variable component would have gone up by 8% to 15% across sectors over the past year. The limit for variable pay for senior-level profiles is usually 30%. It would have gone up to 50% for some of the senior-level profiles in new economy sectors like e-commerce." While CXOs in IT and ITeS always had a split closer to 50:50 when it came to fixed and variable pay, the ratio has become more prominent this year because of high volumes associated with sales performance and incentives be-

ing linked to sales, says Ajay Singh Shekawat, senior consultant at Stanton Chase.

Hiking variable pay over fixed is seen as allowing companies to gauge an employee before giving out the rest of the salary when the market conditions are tough, and enables them to retain quality talent till the end of the year. Though that may not be the only reason. "Hiking the variable pay could be about ensuring a higher level of contribution from employees, retaining quality talent, or reducing the liability of the wage bill," says Mayank Pande, director, India and Saarc of consulting firm Hay Group.

Arun Shankar Das Mahapatra, partner-in-charge of Heidrick & Struggles in India, attributes the rise in variable component over the past few years to rising compensation levels and the India growth story, which was marked by the growth of private equity investments in the country and more money coming into traditional sectors like pharmaceuticals and manufacturing. "Even in a traditional sector like manufacturing the variable pay would have gone up to 40% to 45% at the senior level from 10% to 15% five years ago," he says. "Compensation levels have increased across industries in India and are on par with most developed nations. When companies dole out more money they also want more performance. A substantial variable pay makes the individual commit to delivery."

According to search firms, sectors like e-commerce, IT and ITeS, FMCG and consumer durables and pharma have doled out a large part of their pay as variable pay over the past year. "Sectors like e-commerce are

witnessing rapid growth and are hiring new people at senior levels. Unlike the US where professionals join a start-up at a pay cut, and then make up for it through stock options, in India, professionals join at a similar pay and are given other wealth creation options like stocks and variable pay," says Srivastava.

Variable pay has gone up by 10% for senior profiles in the technology, IT and ITeS sectors on an average over the past year, says Shalinee Utkale, manager, IT and ITeS practice at Elixir Consulting. "Some of the big multinational companies in this space have increased variable pay to 40% to 50%," she says. Anand pegs the rise in variable pay in the consumer durables sector to about 5% to 10%.

Performers in other sectors are also being promised hiked variable pay at the end of the year. "If the sectors the companies operate in do not perform well, the company will not perform well, and it becomes difficult to give out increments. Then, variable pay becomes effective for distinguishing the high performers from the rest and retaining them in your company," says Adil Malik, group president, human resources, Essar. For instance, at Essar, high performers this year got variable hikes which were about 25% more than the average performers.

Pande feels the situation is starkly different from the pre-slowdown years of 2005-2008, when companies were hiring left, right and centre, and were not worried about parity issues. "Now they are holding every individual accountable for performance and are then looking at their variable pay. The days of random mass hiring are gone, and the hike in salary only comes into effect at the end of the quarter or year," he feels.

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SOURCES: Elixir Consulting, Mercer's All Industry Total Remuneration Survey, search firms