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India’s Knowledge Sector

Growth Engine or Troubled Times Ahead?

As the global economic scenario continues to be conservative, it remains to be seen whether the metamorphosis of the third-party BPOs into KPOs will prove to be a boon for the industry or lead to workforce shortage and a fierce war for talent.
I hope you had a wonderful time bringing in the New Year with your loved ones. To me, the big news has been AAP taking over the reins in Delhi. While they are being closely watched on their performance and how they provide able leadership, the power of youth and the desperate call for social change has been at the vanguard. I can closely correlate this to the emerging demographics in today’s workplace.

Demographic change in India has opened up new economic opportunities and the failure to appreciate the emerging needs and preferences led by this can very quickly take this advantage away. Organizations cannot continue with the broad-brush approach. Today’s employee will force us to relook at our talent and rewards strategy. Organizations have to start by investing in understanding the physiognomies of Gen Y and women, and their expectations from career, rewards, development, etc. Diversity is no more a best practice or about being socially responsible, but managing a multi-generational workforce and gender miscellany is a business necessity today. Increasingly, it will be a key competitive differentiator to drive innovation, attract the best talent and create customer-centric organizations.

The other interesting development has been to watch Dr. Raghuram Rajan, who took charge as the 23rd Governor of RBI, and in a very short time stabilized the currency and bought time by taking innovative steps to attract capital back to India. His stint, so far, has exceeded the expectations of many analysts. The rupee is now trading close to 60 per US dollar, up from the lows (just short of 69) it had touched in August. We remain curious on how he continues with his push for inclusive development for India in a year when the country’s economy remains precarious and with everyone being tentative with union elections around the corner.

In my experience, India Inc. has also come to terms with the new normal and is finding ways to manage stakeholder expectations keeping in mind the neo-Hindu growth rate of 5%. A lot of their focus is on setting frameworks for strong, sustainable and balanced growth.

I wish you a great year ahead and look forward to our continued partnership. I hope you enjoy reading this edition. Your feedback has always encouraged us to do more, and I look forward to getting your suggestions and comments.
The change of guard at the Reserve Bank of India (RBI) in August this year was a harbinger of hope for many, following the fluctuating fortunes of the Indian economy. The struggling banking sector was one of them, with a lot of expectation and promise being pinned on how the new governor would streamline the plethora of issues plaguing the sector, and introduce a wider vision. His initial months at office have roused the industry – there is positive momentum for the banking sector specifically, with the announcement of an external committee to screen the banking license applicants, a push to global banks to set up wholly-owned subsidiaries so as to enable them to participate more in the country’s growth and a clear vision to eventually lower the entry barriers for more new banks. While the banking licenses continue to hog the limelight and remain a clear game changer, there is also fresh interest in how global banks will respond to the new guidelines for subsidization that were released in November 2013. More so because the sector (comprising 45 foreign banks) has seemingly struggled since the 2008 crisis reached the Indian
might be tempting to make between the two variables. This number has also been going down gradually since 2009 and the days of high double-digit increases seems a story of the past for these banks.

Is Functional Fragmentation in Fashion?
Given the overall slowdown in the sector, the functional differences on fixed pay increases have been minimal in 2012-13, with not much to choose from.

- The average increase for wholesale banking was 9.32% with the increases being in the range of 7-11% across banks. Functions like transaction banking and mid markets have seen a steady increase of 7-8% over the past two years, in line with business growth and hiring of these skills. Wholesale banking also continues to attract the highest premiums in terms of base pay as it also is the more dominant business for the global banks that we surveyed.

- Operations & infrastructure have seen an increase of approximately 8.5% across most banks, which is in line with the overall bank average. On fixed pay, wholesale operations have seen a higher increase than retail operations (approximately 1-2% higher for wholesale) in line with the businesses they support. Across infrastructure, control functions like audit, compliance and legal have got marginally higher increases compared to other functions. This is a trend seen over the last few years given the regulatory orientation of banking and the control regime governing global banks.

- Retail banking has seen muted increases given the pessimism in consumer sentiments over the past two years. Increases have been in the range of 6-10% for most banks.

- Treasury has seen low fixed pay increases with the average being around 7%. Many banks have given very conservative increases to senior roles in this team which could be due to higher base pay levels.

Getting a Fix on the Fixed Pay Increases
Overall, fixed pay increases for 2013 were in line with projections that banks had made towards the end of 2012. Most global banks gave actual increases in the range of 5-10% in India with the average increase being 8.85% as per their compensation data, which resonates with the 8% that they projected in December 2012 and is close to the 8.3% number that emerged in the mid-year 2013-14 Aon Hewitt Salary Increase Survey. Full service global banks had a slightly lower number (50-100 bps less) than other global banks, given the stringent global regulatory framework and guidelines followed by most of them.

<table>
<thead>
<tr>
<th>Function</th>
<th>Average</th>
<th>Range</th>
<th>Median</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail banking</td>
<td>8.03%</td>
<td>6-10.2%</td>
<td>7.58%</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>8.55%</td>
<td>5.6-9.8%</td>
<td>9.56%</td>
</tr>
<tr>
<td>Wholesale banking</td>
<td>9.32%</td>
<td>6.7-11.2%</td>
<td>9.53%</td>
</tr>
<tr>
<td>Operations</td>
<td>8.89%</td>
<td>6.3-10.6%</td>
<td>9.37%</td>
</tr>
<tr>
<td>Treasury &amp; fixed income</td>
<td>7.02%</td>
<td>4.9-10.5%</td>
<td>8.16%</td>
</tr>
</tbody>
</table>

Source: Aon Hewitt Banking India Study 2012-13

It is interesting to note that inflation ranged from 8-10% over 2012, however salary increases continued to be in the range of 8%, thus diluting the correlation that
Is Fixed Pay a ‘Level’ Playing Field?
Level wise increases have been in line with the observations from the Aon Hewitt Salary Increase Survey which shows that junior levels tend to get higher increases than middle to senior levels. This is largely due to two reasons – firstly, on account of higher attrition at the junior levels and secondly, as these levels are operating at a much lower base. The only anomaly this year is seen at the AVP/Associate level where the median pay increase is approximately 10%. This could be due to higher attrition at this level given more market opportunities as well as reduced promotions from AVP to VP levels which could be compensated by marginally higher increases.

The top management pool has seen a very marginal increase – average of 5-6% across most banks. This is in line with the strategy of most banks in India as well as regionally and globally.

Table 3: Fixed Pay Increases Across Levels

<table>
<thead>
<tr>
<th>McLagan Level</th>
<th>Average Fixed Pay Increase 2013</th>
<th>Median Fixed Pay Increase 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>MD</td>
<td>5.93%</td>
<td>5.13%</td>
</tr>
<tr>
<td>Director</td>
<td>7.41%</td>
<td>7.77%</td>
</tr>
<tr>
<td>VP</td>
<td>9.14%</td>
<td>9.58%</td>
</tr>
<tr>
<td>AVP/Associate</td>
<td>9.55%</td>
<td>10.05%</td>
</tr>
<tr>
<td>Analyst</td>
<td>9.55%</td>
<td>9.48%</td>
</tr>
<tr>
<td>Officer</td>
<td>9.85%</td>
<td>10.09%</td>
</tr>
</tbody>
</table>

Source: Aon Hewitt Salary Increase Survey 2012-13

Was Bonus Actually Bogus in 2013?
Bonus payouts have always been a contentious topic of discussion and debate across most global banks, given the historical levels and sizeable variations. Typically, these pools are allocated from global headquarters to India basis country performance and divisional performance.

As per the McLagan trends insights earlier this year, bonus pools were projected to remain flat across the bank with only certain functions like treasury, trade finance and corporate banking seeing a marginal increase of 5-10%. However, the analysis on actual payouts for 2012, as per the compensation data collected across banks, shows a more optimistic payout than predicted.

While the overall market bonus payouts for 2012 (local and global firms) increased by 13% year-on-year over 2011 payouts, global banks specifically showed an impressive increase of 17%. Local firms have traditionally been more conservative in paying out cash bonus and have always relied more on long-term incentive vehicles for retention and motivation. Full service banks (retail and wholesale) showed a lower range than other global banks with the numbers being in the range of 12-14%.

Table 4: Increase in Bonus Payouts

| Average increase in total bonus payout from 2011 for global banks in India | 17% |
| Range of total bonus increase from 2011 for global banks in India | 12-27% |
| McLagan projection (as on December 2012) | 0-10% |

Source: Aon Hewitt Banking India Study 2012-13

Retail Bonus Payouts – Surprise Package?
As compared to fixed pay, there is far more variation seen in bonus payouts across functions.

- Infrastructure and operations teams have seen differential payouts with infrastructure seeing significantly better payouts than projected earlier in the year. Control functions within infrastructure have seen better payouts than other functions as well as operations, in line with the consistent premium they command and their demand as a hot skill
- Treasury function has seen an increase of approximately 20%, which is in line with projections from earlier this year. Though the fixed income business did well, the payouts could also be a little muted since payouts for this function are more closely tied to a global pool, which has been largely conservative given the global diktats
- Wholesale banking, having done well in some pockets, has seen a year-on-year increase of approximately 19% in the bonus payout, reflecting a mixed bag as some
banks have grown considerably while others have shown a steady trend. Within wholesale banking also, some functions have shown a more positive trend than others.

The year-on-year increase in bonus payout for retail bank has gone up by approximately 20% over 2011, certainly coming as a surprise. One of the reasons for this could be the significantly muted bonus and incentive payouts for most banks in 2011 which led to a catch up action last year and a rise in percentage increase. The analysis showed a large number of incumbents who got zero bonus or incentive in 2011, getting a reasonable payout in 2012. Also, for most global banks this continues to be an investment area and bonus payouts may not seem commensurate with the size of business yet.

Table 5: Average Increase in Bonus Payouts Across Functions

<table>
<thead>
<tr>
<th>Function</th>
<th>Average Increase in Total Bonus Payout from 2011 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail banking</td>
<td>20.5%</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>17%</td>
</tr>
<tr>
<td>Wholesale banking</td>
<td>18.8%</td>
</tr>
<tr>
<td>Operations</td>
<td>10.3%</td>
</tr>
<tr>
<td>Treasury &amp; fixed income</td>
<td>20.7%</td>
</tr>
</tbody>
</table>

Source: Aon Hewitt Banking India Study 2012-13

Global Bankers to Continue their Swagger?

So, is the solemn story of subdued banking salaries a reality? Perhaps not. This analysis shows that while fixed pay increases for 2012-13 were in line with projections provided early on, bonus has had a positive upside on actual payout, as compared to both projections as well as actual business performance. While fixed pay increments remain conservative and amongst the lowest for global banks in the BFSI sector, variable pay has been the surprise package and belied popular belief. One cannot argue that foreign exchange forces were at play (the bonus pools are allocated in the region or globally) since the rupee plummeted only post June 2013, while these payouts were completed by April. Payouts for 2013 may have a different story to tell and early reports suggest better performance for wholesale, but a weaker payout for retail. A lot of other market-driven factors are also expected to influence the 2013 payouts – global economic performance which has wavered in the third quarter, high inflation pressures in India which have abated marginally, announcement of new banking licenses, and finally, the uncertain domestic political scenario. But for the time being, global banks can heave a sigh of relief.

Appendix:

This article analyzes compensation data across eight global banks that take part in the Banking India Survey. The analysis is based on data for two years (2012 and 2013). All bonus payout analysis is on entire population and not on same store incumbents.

Data Sources:

1. Ernst & Young Report
2. Aon Hewitt Salary Increase Survey 2012-13
3. Aon Hewitt Mid-year Salary Increase Survey 2013-14
4. Aon Hewitt Banking India Study 2012-13

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Certified Rewards Professional

Addresses the long felt need for a structured training program on rewards. The program covers the essentials of Total Rewards strategy, internal equity, external competitiveness, pay management and incentive design.

Upcoming Programs in 2014

<table>
<thead>
<tr>
<th>Certification</th>
<th>Bengaluru</th>
<th>Gurgaon</th>
<th>Mumbai</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certified Human Resource Professional</td>
<td>5-April</td>
<td>26-April</td>
<td>10-May</td>
</tr>
<tr>
<td>Certified Rewards Professional</td>
<td>5-April</td>
<td>26-April</td>
<td>12-April</td>
</tr>
</tbody>
</table>

Contact Amit Kumar at aonahlc@aonhewitt.com or call at +91 9999 831 378 to request for a course catalog or to know more about Aon Hewitt Learning Center.
The People Transfer Conundrum
One of the most vexing issues in merger integrations is how to manage people transfers to drive deal and synergy goals in a way that does not negatively impact productivity or employee engagement. This applies in all types of transactions that entail people transfer, such as carve out transactions, managed services deals in telecom and Business Process Outsourcing (BPO) deals, spin offs, divestitures, etc.

Clients often wonder if there is a magic wand to do this well. What aspects should they focus on as they execute this critical change initiative? The first thing to realize is that no people transfer exercise is “simple”. Secondly, you need to plan and prepare very thoroughly. Prioritize and don’t make Day 1 bigger than it needs to be. Thirdly, the need to acknowledge that this is typically a huge change initiative, more so for the employees impacted than sometimes the organization itself.

Let’s examine some critical areas that we have found are especially challenging and critical to a successful people transfer.

**Prioritize, Prioritize, Prioritize…**
To borrow from the retail industry where the one-word mantra for success is “location, location, location”, for people transfer, it is “prioritize, prioritize, prioritize.” As we look at our research and client experience over the years, the top three areas of HR challenge and drivers of success that emerge are:

1. **Rewards alignment and integration**
2. **Culture alignment –** both operating and organizational
3. **Workforce optimization and right-sizing**

**1. Align Rewards and Performance Expectations**
This is a critical driver, whether you are transferring a sizeable or small population. Let’s take an example of a Managed Services (MS) deal that entails a substantial people transfer. Transferring employees, accepting the new offers and joining is critical to the deal success, and compensation has a big part to play in that.

This is so critical that best-in-class MS clients will walk away/void the contract deal, if a specified percentage of employees don’t transfer in the first week. If the rewards alignment piece is not thought through, this step is bound to fail or the deal economics will be breached. Our research indicates a few strategies that are key to this step’s success and should be executed at the negotiation stage before close of deal/contract.

Firstly, understand that all employees are not equal and that a broad-brush approach will not work. Divide employees into criticality groups, say A, B, C categories, based on performance, potential and skill criticality. Design your pay reference point, complete alignment period and negotiation strategies, accordingly.

Secondly, if, as the transferee firm, you have different legal entities with different rewards programs, leverage that to drive best compensation fitment. This will minimize adverse impact and differentials between the existing employee rewards and the compensation that they will be transitioned to as part of your firm.

Thirdly, compensation levels often may be increased by the target firm just before a deal or contract. Do your diligence, negotiate hard based on your employee criticality categories, and ensure that expectations of compensation are set right. Fourthly, typically we find, especially in MS/BPO contracts, that there is a difference in performance orientations and expectations in transferring employees. There is a need to do unambiguous performance expectation setting with the firm and employees (if you have access before a deal closes) and use performance incentive as the mechanism to address this issue and harmonize levels of total pay.

Outsourcing contracts in Europe come with unique challenges. Corporations looking to enter into a business process outsourcing contract with another party must fully understand how both the “Acquired Rights Directive” and local law impact these decisions. In many cases, the employment and any associated liabilities transfer from the old employer to the outsourcer. However, the legislation is complex and may apply differently by situation.

We have supported several projects recently to help non-EU clients understand which terms and conditions must be maintained, and where flexibility may be considered. Certain benefits, such as pensions, may not...
be explicitly covered by the directive, and thus separate consideration may be required for the treatment of past-service benefits and future program designs.

It is critical to consider the structure of any outsourcing contract to determine how to capture the impact into the commercial terms of the deal. In particular, the treatment of employee benefits in these transfer situations can be a material consideration in the pricing and negotiation of commercial terms for outsourcing deals. For example, defined benefit pension issues became a material consideration in two recent projects in the UK, including the successful negotiation of a 30-year concession for a government rail contract and the outsourcing of the first-ever UK public-owned prison.

In Asia (India), in a large deal in the MS space in the Technology, Media and Telecommunications (TMT) sector, we saw a clear bias of leveraging entities to get better fitment. Accordingly, a phased approach to compensation alignment was adopted with a three-year horizon, as employees being transferred were at a much lower total pay than the parent firm. Exceptions that were aligned in year one were identified critical skills and high potentials. The total pay peg point was also managed downward, capitalizing on the more premium “employer brand” of the parent MS firm. Using the above strategies, despite having major misalignments and unrealistic employee expectations, the firm was able to successfully transfer more than 90% of the targeted and all of the “must have” employees within the first two weeks.

2. Culture Alignment
Not surprisingly, the culture aspect comes up as a critical pain point, based on our research and experience. This is addressable and best-in-class clients have a few tricks up their sleeve to recommend.

Firstly, evaluate the operating culture gaps and organizational culture gaps as two different issues. In our experience, in many cases the issue often lies more in the operating culture differences.

Secondly, run a structured operating culture gap analysis and culture future state articulation either before, or right after the deal/contract close. This will measure gaps and articulate the desired state in operating culture anchors, such as performance orientation, standardized process vs. flexibility, centralization vs. decentralization, decision-making protocols, speed of decision-making, talent buy vs. build philosophy, etc.

Thirdly, articulate your “non-negotiable” priorities and draw up a prioritized action plan with no more than three or four immediate initiatives to bridge the most critical anchors. The rest can be phased over a two-year period. It’s important not to bite off more than you can chew on immediate implementation; remember that culture alignment is an ongoing process.

In the large MS deal referenced above, process transformation, zero tolerance on compliance issues, process orientation, and leveraging the firm’s tools and system shifts were classified as “non-negotiables” from an operating culture standpoint. These were identified upfront during the negotiation stage and a time-bound plan to execute this transition was put into place right after Day 1.

You counseled, coached, and if all failed, there were instances of exits from the system on performance grounds. That’s how clear and “non-negotiable” the message needs to be. It provides clarity of direction and intent that is instrumental as you propagate a new desired culture.

On other aspects of culture, like decision-making flexibility, talent growth, performance orientation in rewards and career, etc., a more gradual staged approach was developed. They ran a “culture audit” on Day 1 on these softer culture aspects, launched interventions based on gaps, and measured progress periodically through follow-up audits.

3. Workforce Optimization
This is perhaps the hardest reality in many transactions or MS deals where operational efficiencies or cost synergies are a major strategic rationale in the deal. The key here as well is to have a two-layered approach. Evaluate the geographies from a “growth” or “mature” market perspective. Growth markets should be managed differently, even when cost synergies are a critical driver. Talent can be a critical differentiator in growth.
success and the cost of growth in these markets, current slowdown notwithstanding. So, for growth markets, focus on redeployment/reskilling of excess resources as you integrate or improve processes/tools that may create redundancies. International firms may also create a talent-export pipeline to other geographies that are similar, and experiencing growth on analogous business models or skills requirement.

For “mature” markets with margin and growth pressures, redundancies are an inevitable truth. Thus, best-in-class clients would identify a phased plan starting six months to a year out, which allows full knowledge transfer from redundant employees, and would transpose that into the deal agreement or an MS contract. For example, in a MS deal, typically service providers will insist on full freedom in optimizing workforce to drive efficiencies from six months to a year after Day 1. Even here, talent “export” should be the first line of defense where feasible.

In the case of inevitable redundancies, our research and experience show that firms would ordinarily follow the lowest common denominator of the target firm’s severance, their own severance policy, and balance that with market practice. As long as the economics can be worked out, a firm needs to appear to be fair and balanced. Relying on the bare statutory minimum for severance may not be the smartest strategy in markets that have frugal severance norms, as it creates negative engagement in the residual workforce and adverse brand impact within and outside in the market.

In a large BFSI merger in Asia, there was a huge efficiency improvement merger rationale that would inevitably cause redundancies. But there were also areas of growth being driven and redeployment was taken as the first line of defense to “resource” fund those growth initiatives. In the MS deal example, even in high growth economies where growth and margins were under pressure due to saturation of penetration, redundancies where necessary were executed one year into the contract. That said, good redundant resources once trained in the “new operating culture” were exported out to other geographies to help grow that market and execute similar deals.

Again, the complex labor law environment in the European Union (EU) will also govern an employer’s ability to execute collective dismissals. Entities that take over certain services in the outsourcing space may also face challenges managing the cost of redundancies. In the EU, when a specific service is transferred to a new entity, the employment relationship of those performing related services will automatically transfer. In general, if employees aren’t offered a position with comparable terms and conditions, there will be a redundancy cost triggered. Employers will also need to navigate the process of consultation with employees and their representatives or works councils through any perceived changes. The best approach includes a material commitment towards change management, detailed employee communications, and outplacement or retraining programs, wherever applicable.

In conclusion, the three action steps outlined above are the most critical to a successful people transfer in transactions. Though these are complex and wearisome issues, there are some tried and tested strategies that can manage this risk well and ensure a smooth people transfer, while driving the deal strategies and goals.

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Aon Hewitt recently concluded its annual Salary Increase Survey to understand how HR and rewards professionals are dealing with the vagaries of the Indian economy and the intensifying pressure on cost. In India, the survey received an overwhelming response with 500+ organizations participating.

The survey gauges the difference between salary increase projections made in the beginning of the year and the actual salary increase paid out in 2013. It presents insights on salary budgets planned for 2014, factors influencing pay decisions, actual and projected bonus payouts and the measures organizations are taking to control escalating wage bills.

The India Salary Increase Survey Phase 2 concluded in January and the results, slated to release shortly, will bring you the latest rewards trends.

For further details and queries, please write to us at totalrewards@aonhewitt.com
India’s Knowledge Sector
Growth Engine or Troubled Times Ahead?
The global economic growth outlook continues to be conservative. The US economy, which is the engine of global growth, is seen to be sputtering with the US Government on furlough and fears of imminent debt default. The proverbial tin can probably hasn’t been kicked out as far as it should have been to generate long-term investor confidence.

This global uncertainty has had an impact on the Indian economy as well. According to the Economic Outlook Report 2013-14, India’s GDP is expected to grow at a modest rate of 5.3% in 2013-14 on the back of a high Current Account Deficit, policy paralysis and lack of industrial investment. The service sector which accounts for ~60% of the GDP is expected to grow by only 6.6% in 2013-14 as against 7.1% in 2012-13. This is seen as the slowest growth of the services sector in the last 10 years.

In this sluggish economic scenario, the growth of the Indian IT-BPM (Business Process Management) industry within the services sector has been a boon to the Indian economy. It has shown a phenomenal growth of six times in the last 15 years and caters to ~52% of the global outsourcing business today. With an estimated aggregate revenue of USD 108 billion in FY2013 (roughly 10% of the service sector GDP)1 the Indian IT-BPM sector is key to fueling India’s growth in the coming years. NASSCOM’s pessimistic growth forecast of 10-12% for this sector is 1.5 times the rate of growth expected in the Indian services sector (~7%).

The Knowledge Process Outsourcing (KPO) Phenomenon
The key growth driver since the asset bubble burst for the Indian IT-BPM business has been the BPM sector. The BPM sector has been trying to move away from its image as a back office, and emerge as a strategic outsourcing partner to provide knowledge services. As per ASSOCHAM, India’s KPO market is growing at a CAGR of about 30% annually and stands at USD 20 billion today (roughly 20% of the overall IT-BPM industry)².

The financial services sector, one of the early adopters of knowledge services in India, contributes the highest; with business research and analytics being the largest contributing service lines. As per ASSOCHAM, India’s KPO market is expected to cross USD 30 billion in the next two years, clearly making it an important growth engine for the next wave of IT-BPM outsourcing.

What is interesting to note is how different players in the market have adapted to this growth. The early part of this decade saw the setting up of “KPO boutiques” and Global In-house Centers (GICs), who saw value in the intellectual capabilities of the Indian workforce in conjunction with the cost arbitrage. The latter part of the decade has seen the third-party BPOs venture into the knowledge services business in a bid to seek non-linear growth and protect margins. They have silently moved away from just “your mess for less” to helping clients solve business problems. As per the payroll data shared with Aon Hewitt, the large third-party BPOs have grown their headcount in the knowledge intensive processes at a CAGR of 27% over the last three years. The boutique KPOs and GICs, over the same period of time, have grown at a “moderate” rate of ~15%. Both figures are clearly well ahead of the overall IT-BPM growth figures.

However, what remains to be seen is whether the metamorphosis of third-party BPOs into KPO centers will prove to be a boon for the industry or lead to workforce shortage and a fierce war for specialized talent.

To understand the talent conundrum better between the third-party BPO – knowledge services and boutique KPO/GICs, we examined the headcount and compensation data of the last three years for a few key players. In specific, we analyzed data on three key parameters:
1) Organizational pyramid
2) Per FTE (Full Time Employee) cost
3) Location mix

An Impending Cost War...
Comparing organizational pyramids over the last three years for both the knowledge processes in third-party BPOs and boutique KPOs/GICs, we see third-party BPOs industrializing these services by applying automation, specialization and standardization techniques to break up the work into simpler parts. Industrialization allows generalists to perform the same job, which otherwise would require specialized knowledge thereby allowing organizations to bring down labor cost similar to what they did with traditional BPO services and IT services decades back.

The latter part of the decade has seen the third-party BPOs venture into the knowledge services business in a bid to seek non-linear growth and protect margins. They have silently moved away from just “your mess for less” to helping clients solve business problems.
Our data shows that third-party knowledge services have doubled headcount at the bottom of the pyramid between 2011 and 2013. On the other hand, in boutique KPOs/GICs no such trend was observed signifying either they continue to operate at the higher end of the value chain or they have not been able to incubate the delivery transformation initiatives (automation, industrialization, standardization) which would lead to cost optimization.

Figure 1: Change in Organization Pyramid – 2011 to 2013

Source: Aon Hewitt IT/ITeS 2013 Database

Comparing the per FTE cost, we found that the third-party BPOs have been able to control the per FTE cost by keeping a check on the overall compensation cost. While the entry level salaries are very similar across the industry, the third-party BPOs have managed to control the compensation at the more junior professional levels thereby controlling the overall cost of their pyramids. As a result, the per FTE cost of the third-party BPOs is ~20% lower across levels when compared to the boutique KPOs/GICs. Also, boutique KPOs/GICs are known to award higher salary increases in comparison to their third-party counterparts thereby allowing the latter to enjoy the cost arbitrage advantage.

The cost paradigm is expected to get worse if the KPOs do not lower the center of gravity of their organizational pyramids by building a larger workforce at the bottom. And given that the share of high value work is greater in KPOs/GICs than the third-party BPOs, the same may be tougher to execute.

Figure 2: Cost per FTE in KPOs/GICs vs. Third-Party BPOs

Source: Aon Hewitt IT/ITeS 2013 Database

A deep dive into the current compensation differentials at the process expert/SME (OPS) levels however throws a different and an interesting scenario. The third-party BPOs are seen to have a higher cost per FTE at the process expert/SME levels (OPS) which is higher than their KPO/GIC counterparts. This trend can be attributed to the

Figure 3: Average Salary Increase % – Boutique KPOs/GICs vs. Third-Party BPO vs. Overall ITeS

Source: Aon Hewitt IT/ITeS 2013 Database

Aon Hewitt believes that the battle for talent between boutique KPOs/GICs vs. third-party knowledge services won’t be restricted to compensation alone but the winner will be organizations that can offer a more compelling employee value proposition.
lack of in-house specialized talent at these levels in third-party knowledge services leading them to pull talent from boutique KPOs/GICs to meet their SME needs. This is also probably symptomatic of the fact that the third-party BPOs have started investing in high value knowledge services of late and are having to buy talent to keep pipelines alive.

We expect this trend to rationalize over the next few years as third-party BPOs train in-house talent and break these jobs down to the lowest common denominator. However till such time, we expect this talent war to continue at the process expert/SME levels with third-party BPOs upping the stakes for boutique KPOs/GICs.

Another indication of a raging talent war is that typically new hires come in at a premium to the existing employees at any given level. An analysis of employees who joined knowledge services last year shows them coming at a 19% premium in comparison to employees who have spent more than a year with the organization. The cost per FTE at the management levels i.e. at the middle to senior management in boutique KPOs/GICs seems to be much higher than the cost that third-party BPOs are running. Predominant factors for the same are:

- Boutique KPOs/GICs tend to staff their middle and senior management roles with front office profiles. While this improves the overall process capability, it impacts cost as the organizations are paying front office costs for back office staff.
- Third-party BPOs already had a management pool from their existing processes whose primary capability was around account and client management. The industrialization of these processes has created a management layer which is fungible between the knowledge processes and the traditional BPM processes.

This fungible talent pool is more cost-effective than the front office workforce being employed by the KPOs/GICs.

Aon Hewitt believes that the battle for talent between boutique KPOs/GICs vs. third-party knowledge services won’t be restricted to compensation alone but the winner will be organizations that can offer a more compelling employee value proposition. We also believe that as parent entities of KPOs and GICs become more comfortable with offshoring to India, the ‘low-cost’ management pool in the third-party BPOs will become fair game for them in a bid to control cost.

The Locational Advantage...

The other significant difference between the third-party’s and their competition in the knowledge services space is in their ability to leverage cost of living differences and demand supply imbalances across multiple cities. They have mastered the art of location arbitrage with around 33% of their knowledge services workforce in tier 2/3 cities as compared to ~9% of the headcount that the boutique KPOs and GICs have placed in the tier 2/3 cities.

Third-party IT/ITeS organizations started the move to tier 2/3 cities for their lower end processes over half a decade ago, and with infrastructure in place, they are now in a position to leverage that to drive knowledge service processes to these cities.

This location advantage that third-party BPO firms enjoy and the infrastructural investment required to enter tier 2 cities has so far acted as an entry barrier for the boutique KPOs/GICs. However, we believe this trend is probably due for a change. We see more and more GICs and boutique KPOs looking at cities like Chennai, which in addition to providing a cost advantage also has a trained
For the third-party BPOs, the challenge is not just in attracting the right talent for their knowledge services but also their retention. These organizations are now hiring profiles which are very different from their traditional employee base, and therefore, the need to demonstrate a compelling employer value proposition.

employee pool that can be leveraged. Another advantage of entering these cities is that it brings the organizations closer to the talent catchment pool and eases the recruitment process and cost.

The location mix strategy has been instrumental in helping third-party BPOs clock a higher cost arbitrage than GICs/boutique KPOs. However, the entry of boutique KPOs/GICs to tier 2 cities could be a warning sign for these organizations as the clients and parent companies could look at GICs/boutique KPOs as an intermediary step.

Once the processes have been offshored and stabilized, these processes could eventually be outsourced to third-party BPOs. While this may not hold true for those knowledge processes which work on internal IP of parent organizations, low IP knowledge-intensive processes will see a greater outsourcing trend in the future to minimize cost and deliver greater business value.

The question at that point will be if third-party BPOs are ready from a talent perspective.

The Talent Conundrum…

Given that only 9% of India’s 4.74 million graduates are employable, the engine of India’s IT-BPM sector could come to a sudden stop if long-term changes aren’t made in the pedagogy of our colleges and also the way industry interfaces with academia to ensure higher employability. The movement up the value chain has to be fueled by readily available world-class cost-effective talent.

For the third-party BPOs, the challenge is not just in attracting the right talent for their knowledge services but also their retention. These organizations are now hiring profiles which are very different from their traditional employee base, and therefore, the need to demonstrate a compelling employer value proposition not restricted to the competitiveness of their rewards package alone. HR and business leaders in third-party BPOs need to make an effort to seek answers to the following questions:

- Can the same set of HR and rewards strategies be used to drive employee satisfaction across two diverse groups?
- Do these diverse groups value the investments the organization is making across different rewards parameters equally?
- Are rewards investments being made for the larger, more traditional BPO workforce seen to be of value by today’s knowledge workers?

For the KPOs/GICs, the challenges while being different still would need to be addressed in the medium term.

- Can the KPOs/GICs continue to move up the value chain of the work they perform to justify the premium in cost vs. third-party BPOs?
- How can they increase the exit barrier for process experts and SMEs to ensure that they can win the ongoing talent war?

Given that most organizations are facing a cash crunch either in terms of the amount of money their parent entities are earmarking for them or in terms of the need to shore up margins, we feel that the “one size fits all” approach is passé. Employee segmentation and differentiation need to be an important building block of the talent management, rewards and workforce planning strategy in order to win the talent war.

On the whole, knowledge-based services in our view will continue to be the growth engine of the Indian outsourcing industry. However, we believe that the current levels of industrialization within this industry will change the competitive dynamics of the business. Organizations will have to evolve their HR and rewards strategies to align to the rapidly changing nature of the business should they hope to win the talent war.

Data Sources
1. NASSCOM - IT BPM Strategic Review 2013

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Biddappa, or Dinesh as he is widely known, joined Hindustan Unilever Limited (HUL) in 1992. Over the last 21+ years that Dinesh has worked with HUL, he has worked in a variety of roles starting off in a factory, then working in supervisory development, corporate learning and then R&D. He has worked outside India for Unilever - briefly with Unilever Maghreb (Casablanca), Unilever Bangladesh (as HR Director) and more recently Singapore, where he was Vice President, Human Resources for the Supply Chain in Asia, Africa and Russia. Dinesh is the Executive Director-HR for HUL and also leads HR for Unilever in South Asia as Vice President.

Q. Given the challenging business environment, what are some of your expectations from HR/compensation managers?
A. I would expect the future compensation managers to have a strong commercial business sense. They need to be aligned to the business, understand what the strategic levers of the business are, know the consumers, the changes and triggers in the market, etc. They need to understand the issues and priorities of the business so that they can help build the necessary capabilities required to adapt to the changing business climate.

Cost containment is a major issue for organizations these days. They are increasingly starved of funds and resources at a time when people’s choices have increased. HR managers need to understand that in the changing work environment, they need to build in flexibility, understand their employee population set, their expectations, what they aspire for, what motivates them.

View from the Top
and accordingly, craft policies that work for both the employees and employers. ‘One size fits all’ models don’t work anymore. Even in this world of abundance of choice, there is paucity of funds. There is lesser and lesser money going around, times are getting difficult, gross margins are pressured. When that happens, companies start making choices on how best they want to deploy their funds. From a HR perspective, it leads them to question the manpower cost and how best to deploy it. How to ensure a high return on investment from a retention, engagement and employer brand perspective. How to clip the year-on-year increase in people cost and find ways to keep it variable. I believe rewards and HR professionals need to answer these questions; they need to be accountable and responsible for cost reductions and the measurement of all HR programs and processes.

Metrics for compensation managers should include actions that measure:

- How the company is attracting and retaining key talent
- How the company is managing the employee cost and what are the returns – so it’s a combination of return and spend

Needless to say, they need to have mastery in their subject and a thorough understanding of rewards.

Q. HUL has always been known to be one of the best training grounds for top talent across India Inc. What does the company do to retain talent?

A. Talent retention is of critical importance to us and I would say, it’s a combination of different things that work for us. We offer unique opportunities for personal and professional development, along with several benefits and a work culture that embraces diversity. We believe in meritocracy and deal with people completely based on professionalism and merit. We focus on providing a learning environment and career advancement opportunities both within and outside India.

Our performance-based rewards structure recognizes people for delivering results and exhibiting the right values for our business. Not only do we offer competitive pay and benefits that make employees feel cared for, we also focus on providing a holistic work experience. We have facilities like gymnasium, day care, salon, cafes, ice cream parlor, etc. All of this makes them feel like a part of a place they would want to come back to.

How seriously we take our people is another important factor. We spend an incredible amount of time on people-related issues. We have a lot of initiatives through which we get feedback from our people on an ongoing basis – be it People Survey, or Sunset Talks which are ways for people to reach out and bring to our notice things which are obsolete and need to be looked at. We have a committee of very senior team members to action out some of these suggestions.

I’d like to think people like to work at HUL because we provide a positive work environment, a great place to work where they get to do challenging work and have the freedom to do what they want to do. It goes without saying that our brands and products are exciting so people like to be associated with them.

Q. HUL always represents “best practice” from an incentive perspective. How important do you think are incentives anyways in managing talent?

A. I think incentives play a very important role. First, it is important to determine the business strategy and objectives that incentives are intended to drive. In my view, at different levels, it helps achieve different objectives. For example, for the sales team, incentives help drive performance, it keeps them focused, motivated and driven towards achieving the results they want to achieve in the short-term. At a leadership level, it helps them to take a longer term view of the organization and so on.

Incentives are a way of setting your expectations and the results that you want to drive. They become the lens through which an employee is better able to see and understand what responsibility he or she has and take ownership for driving the desired business outcome. That’s why it is fascinating how business, HR and rewards are so closely linked; if you put any of these in isolation and the results are not the same.
Q. There is a fair bit of research nowadays that says incentives don’t actually motivate. How would you respond to that?
A. In my experience, incentives work very well. However, the effectiveness may be debatable and may differ from company to company. A carefully designed and well-executed incentive program can help build and sustain a performance-driven work environment; and drive behaviors that are aligned with the organization’s business objectives.

Of course, this assumes that it is an effective incentive program, one that is not overly complicated and convoluted. It should be simple, transparent and provide clear marching orders to employees, for them to be effective and achieve the desired business results.

Q. Interestingly, HUL has always been an extremely efficient “net exporter” of talent as compared to most other organizations such as yours in India – how have you managed these cross border moves?
A. We have people from strong educational backgrounds, who are competitive and open to moving and working across geographies. A robust talent management process at HUL ensures that we give opportunities to the right set of people and provide them the desired visibility and career advancement opportunities. We also have a good international assignment policy which facilitates smooth movement of talent. In addition to this, people who went out of the HUL family became ambassadors of the programs run here so it works in our favor.

Q. Managing Gen Y is a new challenge for many large companies – how has HUL been tackling requirements for this audience?
A. There is an abundance of choices available for Gen X and Gen Y and hence, everyone seeks the opportunity to influence what they can get. When someone joined the company 25 years ago, they were looking to stay till retirement, however, when someone joins the firm now, they are looking to see the value they can add in the next 5 to 10 years. The time frames have certainly compressed amongst many other changes.

While compensation remains a key criterion for this generation, slowly we see a trend where they are asking for far more. This generation wants flexibility, freedom of choice, social status, etc., and at the same time, make an impact on the society at large. It is impressive how this generation is so clear about what they want from their workplace.

At HUL, fortunately, we have been able to appreciate at a very early stage that ‘one size fits all’ concept may not be the most suitable one anymore and hence, we have various policies today to support this generation. However, this is a journey, we have to continue to be agile and keep thinking out-of-the-box to meet the diversified needs of the workforce today.

Q. HUL has always been seen to lead in CSR initiatives – how does HR act as a bridge between the CSR initiatives and translating them into expectations both for and from employees?
A. A lot of people today are conscious of the fact that there is a world for tomorrow and are increasingly becoming socially aware of it, which I think is a fascinating trend.

Encouraging people to do beyond their daily job, is something that we must do. We at HUL believe that business should be done the right way using the right value system. We believe that if you are a successful business, the country should benefit from it too. A large part of my role, as an HR professional, is helping people realize that there is a larger purpose to what we do. We are into health, cleanliness, hygiene, nutrition and that’s the objective. The minute the objective is clear, you start looking at your products differently. Then you are passionate about the effects your product have on the betterment of the country. The role of HR is to help people understand the impact their work has on the society. We have been able to do this successfully at HUL in partnership with our business leaders. It is our job to make the business head understand the importance of brand representation that endorses a social value.

Q. Lastly, any messages that you would like to give to compensation professionals in India.
A. This will probably roll back to what we started with. Rewards professionals should view their roles as that of an expert and a business partner. If you look at rewards role only as an expert, it will always be adjacent to the business. But when you say you have expertise in rewards and are also a business partner, you are in the center stage and become a part of the business. I feel there is a tremendous amount rewards people can do to influence the direction in which the organization is headed and hence their roles are business critical.

For more information, please write to us at totalrewards@aonhewitt.com
The Ravaging Rupee: Boon or Bane for the IT/ITeS Sector?

The Indian rupee has been on a rollercoaster ride this year. On August 28, it had posted its biggest day fall in 18 years falling to 69 against the dollar and continued its downward spiral before a slew of measures from the RBI and global impetus saw it settling down to 61/62 to a dollar. Market analysts have attributed the rupee volatility predominantly to a couple of reasons:

- Potential ramp down of the asset purchase program by the US Federal Reserve will reduce the money supply in the US market. A direct result of this is that interest rates in the US are predicted to go up. Any rise in interest rates in the US causes FII outflows from emerging markets. Such FII outflow leads to rise in demand for the US dollar. The Indian markets have significant exposure to FII investments while FDI flows into India have fallen in three of the last four years; hence, any flight of capital would result in the rupee devaluing significantly. With the US core industry growth data strengthening, the Indian markets continue to be spooked at regular intervals on fears of the end of the easy money regime globally.

- High Current Account Deficit (CAD) being run by the Government of India due to high crude oil and gold prices along with social welfare schemes like NREGA coupled with lack of growth/investment in the Indian economy. While the government’s actions in the last few months have helped control the CAD, the prospect of elections in 2014 leads us to believe that CAD is set to go up on the back of populist and welfare measures. On the face of it, it would seem that such depreciation is set to bring cheer to the Indian IT-BPM (Business Process Management) industry given that a majority of the business continues to be US focused. One would assume that such depreciation will bring in greater cost arbitrage,
which would create greater scope for further outsourcing/offshoring of key processes and solutions. To better gauge the mood of the outsourcing industry on the back of the rupee depreciation, Aon Hewitt conducted a survey with HR leaders across 20 leading organizations in the IT-BPM space. The respondents ranged from third-party IT-BPM majors, Global In-house Centers (GICs) to BFSI captives to understand if organizations are greeting the rupee depreciation with open arms and more importantly, how is it changing rewards strategies in the medium term.

'Definitely Maybe'
Across the board, all of the 20 organizations we spoke with agreed that the rupee depreciation helps their key business metrics and improves their competitiveness in the global market. The Indian rupee, as a currency, has depreciated the most in comparison to the currencies of other outsourcing hubs like Ireland and Slovakia. The depreciation in the currency leads to further cost arbitrage making India more lucrative especially when we overlay that with the talent pool available in the country. However, while all of the respondents see an improvement in business metrics, whether that will see an effect on the creation of greater demand for India is unclear. 50% of organizations polled were either unsure or negative in their outlook relating to greater demand generation for India. While globally, clients are pushing out decision-making to help get a sense of the exchange rates, closer to home, multiple issues from the continuing policy paralysis to the retrospective tax amendments make India a very uncertain place to do business in. While the rupee’s depreciation undoubtedly is good for IT-BPM, the overall currency volatility, India’s macro-economic situation clubbed with impending elections brings in a lot of uncertainty, which needs to die down for demand to grow.

'Show Me the Money'
When asked about whether this depreciation of the Indian rupee means greater flexibility and ability to make rewards investments for the Indian workforce, 85% of the organizations responded with a resounding “No”. The only ones which responded in the affirmative were organizations which were on a predefined growth spurt and would have looked to invest more on the Indian workforce anyways. On the back of very little top line growth in real terms over the last few years, more and more organizations are content to let the rupee depreciation pad up their bottom line rather than look to recalibrate and spend the benefit on their employees. For global organizations, the worry also stems from the fact that they are running multi-country operations and not all the currencies have depreciated like the rupee (some like the Chinese Yuan have appreciated as well). At best, this then becomes a zero sum game from a foreign exchange volatility perspective, and the pendulum has in reality just swung the other way.

On the back of very little top line growth in real terms over the last few years, more and more organizations are content to let the rupee depreciation pad up their bottom line rather than look to recalibrate and spend the benefit on their employees.
So Time to Tighten the Belt?

Not really. When asked whether the currency volatility will cause organizations to relook at their salary increase cycles, all 20 organizations denied it emphatically. For all of these organizations, the rupee is just one of the currencies they work with and foreign exchange volatility is one of the risks of doing business. We do not expect any of the organizations in the IT-BPM space to either look at delaying their budgetary or merit increase cycles or constrict/expand the salary increase and promotional budgets due to the fluctuations of the Indian rupee alone. As with previous years and as is the norm, the budgets would be set in accordance with the affordability of the business and in line with the requirements of the talent within the organizations.

Umm... haven’t we been here before?

The US dollar went from being at ₹38 to a dollar to ₹51 to a dollar in the period of a year from 2008 to 2009. We have seen fluctuations of 30% and more in the past, and given the nature of the global economy and the degree of coupling between the Indian and the US economy, we expect that we will see more fluctuation in the future. The debate this year on the currency devaluation has probably been more intense due to the all-pervasive pessimism in the Indian industry on the back of poor macro and micro-economic indicators. But in reality, these movements in our currency haven’t taken us to uncharted territory, we have been here before and the Indian IT-BPM industry knows how to navigate such tumultuous currency fluctuations.

Having said that, Aon Hewitt feels that what progressive organizations need to do or are doing is to evolve to ensure that they remain cost competitive and talent competitive in turbulent times. In this era of economic uncertainty, we feel that organizations need to increase the discretionary nature of their rewards programs which allows parameters like foreign exchange volatility to be taken into account before any payouts are made. To this extent, we would expect to see organizations move towards higher variability in their compensation structures thereby insulating the organization from performance risks as well as currency fluctuations.

As for this year, most of the organizations we polled either converted their budgets to the Indian rupee at a constant currency rate for the year or planned their budget in Indian rupee therefore we do not expect the organizations to have extra cash made available to them due to the rupee depreciation. For organizations that hold their budget in USD consolidated at HQ, we expect a greater willingness to look at corrective actions for their Indian population given that the dollar this year will just go a bit further. Given that all the wage costs have carry forward effects, we do not expect a huge across-the-board spending across these organizations as well.

Figure 3: US Dollar Appreciation

Source: www.xe.com

Figure 4: Increased Rewards Affordability

Source: Aon Hewitt Rupee Depreciation Impact Survey 2013

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"Total Rewards Statements" (TRS™)

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- Enhance the appreciation of rewards programs

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Total Rewards Statements – Showcase the value, build engagement.

For further details and queries, please write to us at totalrewards@aonhewitt.com
Klaus has over 19 years of consulting and sales management experience. He has expertise in all areas of human resources management, organizational effectiveness, sales force effectiveness, executive compensation as well as commercial credit/risk management.

Prior to joining Aon, Klaus worked with Hewitt Associates for more than seven years as Managing Director for its Greater China market group since 2005.

He has also worked with Dun & Bradstreet in its US Headquarter as Business Development Manager for Greater China and Regional Manager and the National Head of financial services for China respectively.

Klaus has a Bachelors Degree in Journalism from Fudan University, Shanghai, China. He has attended a Joint Executive Consortium Program by the Australian Graduate School of Management (AGSM) & Harvard Business School.

Talent and Rewards Landscape in China

Klaus Liu
Chief Executive Officer, Aon Hewitt, Greater China
Q. Over the years, China has moved from a labor-intensive, manufacturing-driven market to a diversified one with an increased movement of talent from different countries. What in your opinion are the topmost challenges organizations are facing as a fallout of increasing globalization? A. With increasing globalization, organizations are grappling with innumerable issues on account of varied cultural nuances. Issues stemming not on account of language, religion or customs but ones which are driven by an organization’s orientation to do business and differing philosophies, are customer first vs. investors first, rigid process vs. individual decision-making, problem solving vs. problem hiding, etc. The important thing is to find a balance between global consistency and locally effective practices.

Also, when organizations lack clarity and vision on what business strategy they are driving, they find it difficult to drive a clear HR and talent management strategy and structure. In my view, it is important to define your company’s core value proposition and ensure a solid integration of HR strategy with the business strategy.

Q. What is causing the shift of State-Owned Enterprises (SOEs) becoming a preferred employer over multinationals? Is it specific to some sectors or driven by generation preference (Baby Boomers vs. Gen X vs. Gen Y)? What are the multinationals doing to attract and retain talent given this change in China? A. It is actually a shift of preference towards local companies – both SOEs and Private-Owned Enterprises (POEs). The shift towards POEs is driven in large parts by the fact that these companies offer rapid growth and career advancement opportunities. Those who join POEs as experienced hires often find themselves propelled to senior positions (e.g. CEO – 1 level) at a very young age (e.g. mid 30s, early 40s). Also a number of POEs have become national players; some have even expanded overseas – as such they are considered the leading and large brands to work for. Another important factor is that they offer hefty rewards packages which are highly competitive and often include a very attractive LTI component.

A shift towards SOEs is largely driven by China becoming a powerful country and a growing sense of national pride/patriotism among the Chinese to work for a large SOE. Also, SOEs not only offer secure, stable employment and relatively generous benefits programs, but they also benefit from many government policies that further spur their growth and ability to compete domestically and internationally. This in turn creates unprecedented opportunities for career growth (e.g. working for “global headquarters” which is in China, or the possibility of being picked for an important role in the public sector) and exposure (e.g. overseas posting), etc.

However, not every SOE is a preferred employer; only those which are viewed as progressive, have a clear strategy on career development, a strong and differentiated EVP with aligned people programs, a nationwide or global presence, and have charismatic local leaders are the ones which are seeing this shift.

To your second question on what strategies multinationals are adopting given this shift, we see leading Foreign Invested Enterprises (FIEs) differentiating themselves by clearly articulating and communicating a unique EVP. Also, the emphasis on trying to compete on compensation alone is passé. Instead they are talking
about Total Rewards and emphasizing unique company culture, global job rotation, L&D opportunities, global brand and recognition, research and development excellence, empowerment, flexible choices (e.g. flexible benefits), etc. to attract and retain talent.

Q. How are you seeing the talent and rewards landscape in China evolve against the backdrop of intense talent competition and growing workforce cost?
A. China’s talent landscape is fast changing and organizations are fine-tuning their talent and rewards programs to deliver the performance they need. While there are a number of trends we see emerging, the key ones are:

- More and more companies are looking at growing and developing talent (“build”) internally instead of “buying” talent which was a preferred strategy five years ago.
- Companies that have the opportunity to “borrow” talent from other markets (e.g. expat assignments) are being more selective with regards to getting the right profile/skill sets to complement and supplement their China workforce.
- Global opportunities for local talent with a view to offer growth, break the glass ceiling perception and to make China operations more integrated with (and appreciated by) the rest of the world.
- Articulating and communicating a differentiated Total Rewards strategy. This is especially true for FIEs, which are using this successfully to offset the perception that only SOEs have extra benefits for their employees. In addition, leading FIEs are laying strong emphasis on Total Rewards communication to ensure that each manager and employee knows what behaviors are encouraged and what results are financially rewarded.

Given that industries are projecting a slower growth, we see companies driving a strong linkage between performance and rewards/bonus payouts.
- Lastly, they are continuously reviewing the location strategy of back offices and operation centers with people risk and people cost as key considerations.

Q. What are companies in China doing to maximize ROI on their compensation spend?
A. Firstly, people costs are being reviewed more regularly, not just as a percentage of the P&L, but also against staffing ratios, customer serving ratios, span of control, gender ratio, generation ratio, etc. to fine-tune the best balance that supports efficient business growth. Secondly, companies are finding ways to optimize their Total Rewards spending while maintaining/increasing employee satisfaction/engagement. Lastly, companies are adopting tax-friendly compensation structures which enable increased net income in the hands of the employees while also capping the overall compensation cost for the employer.

Q. We are increasingly hearing about flexible benefits being used as a rewards differentiator in China. What makes it so popular, what are its key success factors and how are organizations benefiting from it?
A. Cash used to be and still is the king. But, given that companies today have limited salary and bonus budgets, providing flexibility around benefits and other non-compensation elements of rewards can increase the perceived value of the rewards package for employees, with relatively little additional cost to the employer.

Also, companies are using benefits as a key lever to create differentiation in rewards and "stickiness" with the organization.

But given the diverse needs and expectation of employees, companies cannot afford to provide benefits that employees do not value. As such, we see companies implement a flexible benefit plan not so much to control cost but with a view to meet diversified employee needs, improve employer branding and efficiency on benefits spending & communication.

Companies which have successfully implemented flexible benefits programs usually report an improvement on rewards satisfaction and employee engagement.

The flexible benefits programs in China have evolved over a period of time. It is no more about just offering insurance-related options. We now see many lifestyle benefits being included in the Flex Menu to meet the evolving expectations of different generations of employees.

For more information, please write to us at totalrewards@aonhewitt.com
Organizations are adopting a watchful approach and keeping a tight rein on campus recruitment for 2014 as reflected in our recently concluded annual Campus Hiring & Compensation Survey, for 2013-14. This is in line with the overall muted recruitment activity that India Inc. witnessed this year.

When asked about campus hiring plans for 2014, a majority of organizations either reported a “No change” or a “Negative revision” in their hiring plans in comparison to 2013. Management and Engineering graduates saw the maximum impact of the slump with over 30% of organizations reporting a downward revision. While across sectors the sentiment was sluggish for both Management and Engineering graduates, the most notable dip was reported by Engineering/Manufacturing organizations.

Campus Hiring & Compensation for Engineering & Management Graduates

While campus hiring may have hit the slow lane, the compensation offers being made across Engineering & Management campuses definitely seem to be slowly inching upwards. Projections for 2014 showed an upward revision and y-o-y increment on Total Cost to the Company ranged between 5-15% for Management and 4-10% for Engineering graduates.

About the Survey
The Campus Hiring & Compensation Survey saw participation of over 130 organizations across sectors and covered campus hiring and compensation trends mainly for Engineering and Management streams. Data for the survey was collected over October-November 2013.

Campus Hiring Revision for the 2014 Batch

Campus Compensation 2014

Follow this space to read about emerging compensation, benefits and other rewards trends in short insightful bytes

For more information, please write to us at totalrewards@aonhewitt.com
FMCG Outsources Field Sales Force (OFS) Study February-June
Flagship study in the FMCG industry focused on presenting comprehensive compensation and benefits benchmarking data for the field sales staff in India.

ITEs Industry Study May-August
The forum brings together ITEs sector organizations to benchmark their compensation, benefits, people practices and presents detailed analysis across third party, BFSI captives, other captives and KPOs.

India Hotel Survey May-September
The forum brings together leading hotel groups to benchmark their compensation, benefits, people practices and key organizational metrics and covers multiple properties and locations.

Hi-Tech Industry Study May-September
The study provides robust information on cash compensation and other industry trends across IT sectors – IT services, IT products, semiconductors and engineering design.

Hi-Tech Skills Study June-August
This study provides benchmark information and best practices with regards to managing compensation for niche and differentiated skills in the IT industry.

Indian Semiconductor and EDA Forum (ISEF) October-December
The forum brings together leading semiconductor and EDA companies to benchmark compensation, variable pay practices and key organizational metrics.

Salary Increase Survey Phase I: June-September
Phase 2: December-February
One of the most exhaustive studies in the area of performance and rewards in India. The study measures actual and projected salary increases, variable pay and performance data across employee categories.

India Pharmaceutical Forum June-September
The forum brings together the key MNCs and Indian pharmaceutical organizations to benchmark their positions, levels and benefits across the industry.

Executive Compensation Study July-December
The study provides organizations with access to rich analysis of data and practices in executive compensation.

Medical Technology Forum July-October
The study covers leading organizations in the medical devices/technology domain providing robust and comprehensive information on cash compensation and industry trends.

Retail Forum July-October
The study covers leading organizations in the retail industry providing robust and comprehensive information on cash compensation and industry trends.

Power Sector Forum August-December
The study covers leading organizations in the power and energy domain, providing robust and comprehensive information on cash compensation and industry trends.

Campus Compensation Study October-December
The study provides organizations with trends in compensation for MBAs and graduates from top business schools and engineering colleges.

SIAM C&B Forum September-January
A study facilitated by SIAM members covering more than 25 large auto OEMs in the country. The study benchmarks compensation, benefits and people and productivity measures in the auto OEM industry.

Auto Ancillary C&B Forum September-January
A study conducted for auto ancillary organizations across the country. The study benchmarks compensation, benefits and people and productivity measures.

CRO Forum October-January
The study covers leading organizations in the CRO/CRAM domain providing robust and comprehensive information on cash compensation and industry trends.

India Telecom Forum October-February
This forum brings together leading telecom companies to benchmark compensation, benefits and other best practices.

Upcoming Insights

McLagan – Banking & Financial Services Insights

Capital Markets Forum Study April-September
A benchmark study conducted for global investment banks and Indian institutional securities firms covering equity capital markets, debt capital markets and investment banking job families.

India Banking Forum Study May-October
A platform for all major Indian and MNC banks to come together to share and benchmark their positions, levels, functions and sub-functions across the industry.

Investment Management Forum Study June-October
A flagship study in the asset management sector covering key job families like fund management and sales.

Private Banking Forum Study June-September
A study covering large Indian and MNC private wealth management organizations benchmarking key roles across functions.

Life Insurance Forum Study September-January
A study of the largest life insurance players in India covering positions across all channels of distribution and key corporate functions.

General Insurance Forum Study September-February
A study of the largest general insurance players in India covering positions across all channels of distribution and key corporate functions.

Retail Broking Forum Study October-January
A study that covers Indian and MNC retail brokerage organizations to benchmark positions across sales, PMS and other functions.

Private Equity Forum Study October-January
A study of private equity players covering key positions across fund management roles.

NBFC Forum Study November-March
A study of large NBFCs covering levels and positions across sales and support.

For more information, please write to us at totalrewards@aonhewitt.com
Weigh Your Options. Optimize.

Total Rewards Optimization (TRO) – Helping your rewards make a difference

Aon Hewitt’s Total Rewards Consulting and Optimization approach can help maximize the return on investment on your Total Rewards investments. Our approach and tools are proven to:

- Identify the optimal Total Rewards mix that maintain or improve engagement/retention for different cost and business objectives
- Target business-critical talent pools and workforce demographics and their rewards preferences
- Anticipate employees’ reactions to new programs or future program changes
- Provide data rigor to support decisions for rewards program design, delivery and communication planning
- TRO is a preference measurement tool. It helps organizations optimize their plan costs and employee preferences to increase RoI on compensation spending.
- Uses conjoint technique to collect preference data
- Fully self-adaptive survey based on individual employee preferences
- Completely customizable rewards attributes
- Provides real-time data analysis

For further details and queries, please write to us at totalrewards@aonhewitt.com
Aon Hewitt Executive Compensation Survey 2013-14

- EC survey 2013-14 – largest executive compensation and practices database of its kind in South Asia
- Participation from over 365 companies across 11 different industry clusters, 23 sub sectors and five ownership definitions
- Data analysis for over 35 executive level positions including the CEO, direct reports as well as other critical positions
- Compensation information available on all major components of pay including fixed variable pay, long-term pay, stock compensation
- Only database with relevant and usable data on conglomerate/corporate level executives in Asia
- Only database in Asia capturing long-term incentive pay and practices information for more than 150 companies
- Other insights and detailed analysis available on:
  - Salary increase information by specific executive positions and roles to have more focused approach
  - Correlation analysis with performance measures and financial and other relevant parameters
  - Comparison with global executive pay levels and practices
- Overview of regulatory framework and changes and its impact on executive compensation

Customized report could be made available on request for company focused analysis. Nominal pricing for participants as well as for non-participants. You may reach out to us on: “executivecompensationmailbox@aonhewitt.com”

For further details and queries, please write to us at totalrewards@aonhewitt.com