

VARIABLE PAY – INDIA STORY 2015~16

Variable pay, also known as performance pay, is used to recognize & reward employee's contribution - which is above and beyond their normal job requirements and is linked with pre-defined performance parameters like – sales, quality, productivity, profitability etc.

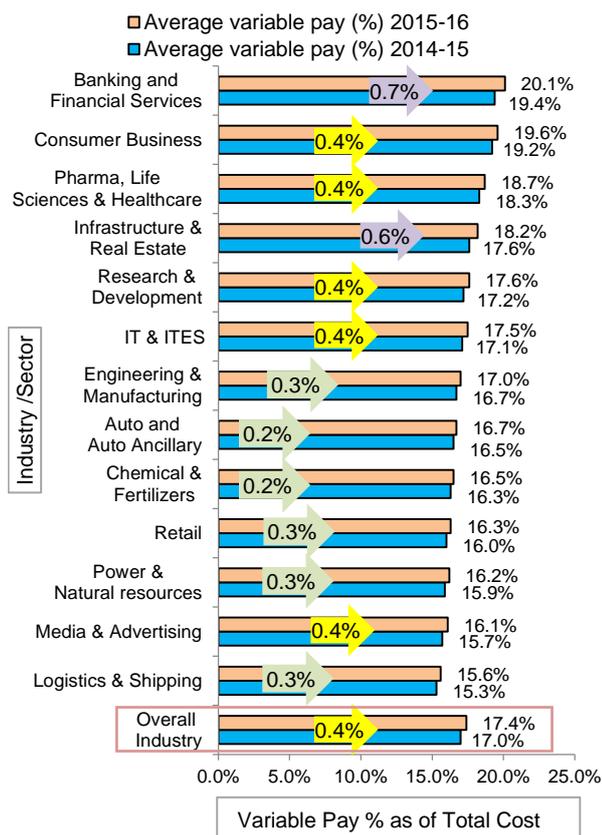
In the Indian scenario, variable pay started being talked about since early 1990's and at current stage organizations are in catching-up mode vis-à-vis western world. Even PSU's as directed by last pay commission are moving towards linking part of their pay with performance of the company.

In some sectors variable pay has become a popular mode of compensation & is perceived modern. This is more so in the increasingly competitive business environment, where companies are looking to maintain their fixed costs and increase the variable payouts - as it is linked & paid out on the achievement of defined & agreed Targets/ KRAs/ Results.

Companies use variable pay to drive performance culture and leverage it to attract and retain talented employees. In the current scenario, "talent" prefers to join organizations where they will be differentiated for their performance from others - and are suitably rewarded.

With respect to the "India Positioning & Story" on variable pay - a recent cross industry variable pay study conducted at Omam Consultants indicates that the employees are expected to get average variable pay of 17.4%, which is an increase of around 0.4% percent compared to an actual average variable pay of 17% percent in 2014~15.

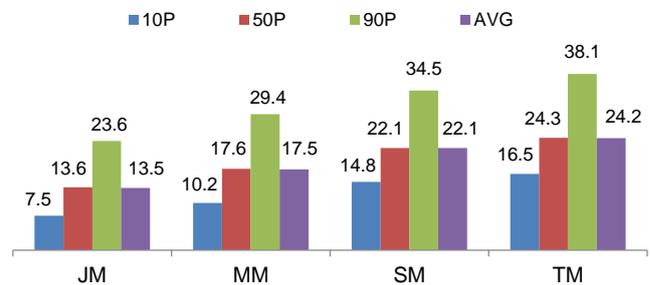
At Omam Consultants, we have been working on the variable pay trends across industry verticals, which is summarized and presented in a grid below – this grid provides at-a-glance comparison of variable pay across sectors for FY 2014~15 and FY 2015~16 :



Most Representative Variable Pay Band

Junior Level	10% ~ 15% of CTC
Middle Level	15% ~ 20% of CTC
Senior Level	20% ~ 30% of CTC
Top Level	25% + ; Additionally Stocks (ESOP) as additional performance incentives.

Generic Level-wise Variable Pay Range for FY 2015~16



Our study revealed that focus of most of the Organizations is employee and organizational performance.

Sectors like BFSI, Consumer Business, Infrastructure, R&D led the table in FY 2014~15 and would continue to pay higher payouts in FY 2015~16 as well.

Industry sectors like Pharma, Consumer Business and Banking will continue to roll out annual average variable pay at high figures ranging from 18.7% to 20.1% for FY 2015~16 and other sectors like Engineering, Infrastructure, R&D and Retail too will roll out annual average variable pay from 16.3% to 18.2% for FY 2015~16.

Oil & Gas and related sectors like EPC have become cautious and might go softer on their earlier projections of high variable pay.

Another interesting trend that has been noticed - is how companies are now choosing to deviate from the fundamental policy of "one size fits all" approach. Instead, they are now focusing on tailor-made reward strategies. Over the past years, we've witnessed how the difference between the rewards offered to average employees vis-a-vis a top performer has been growing significantly in terms of percentages and actual quantum.

Sectors like infrastructure, manufacturing, e-commerce, and financial services are expected to receive significant investment, fueling job creation; but would create imbalance in the talent availability – which in-turn will increase pay levels, especially for skilled employees. In such a scenario Organizations will look out for cost efficiencies & differentiate employee rewards based on performance.

We at Omam, suggest that Organizations should implement strategies specific to levels/ industry they belong to. Also, rather than focus on variable payouts alone, companies should take a holistic view on total rewards package and focus on strategies to attract & retain employees.