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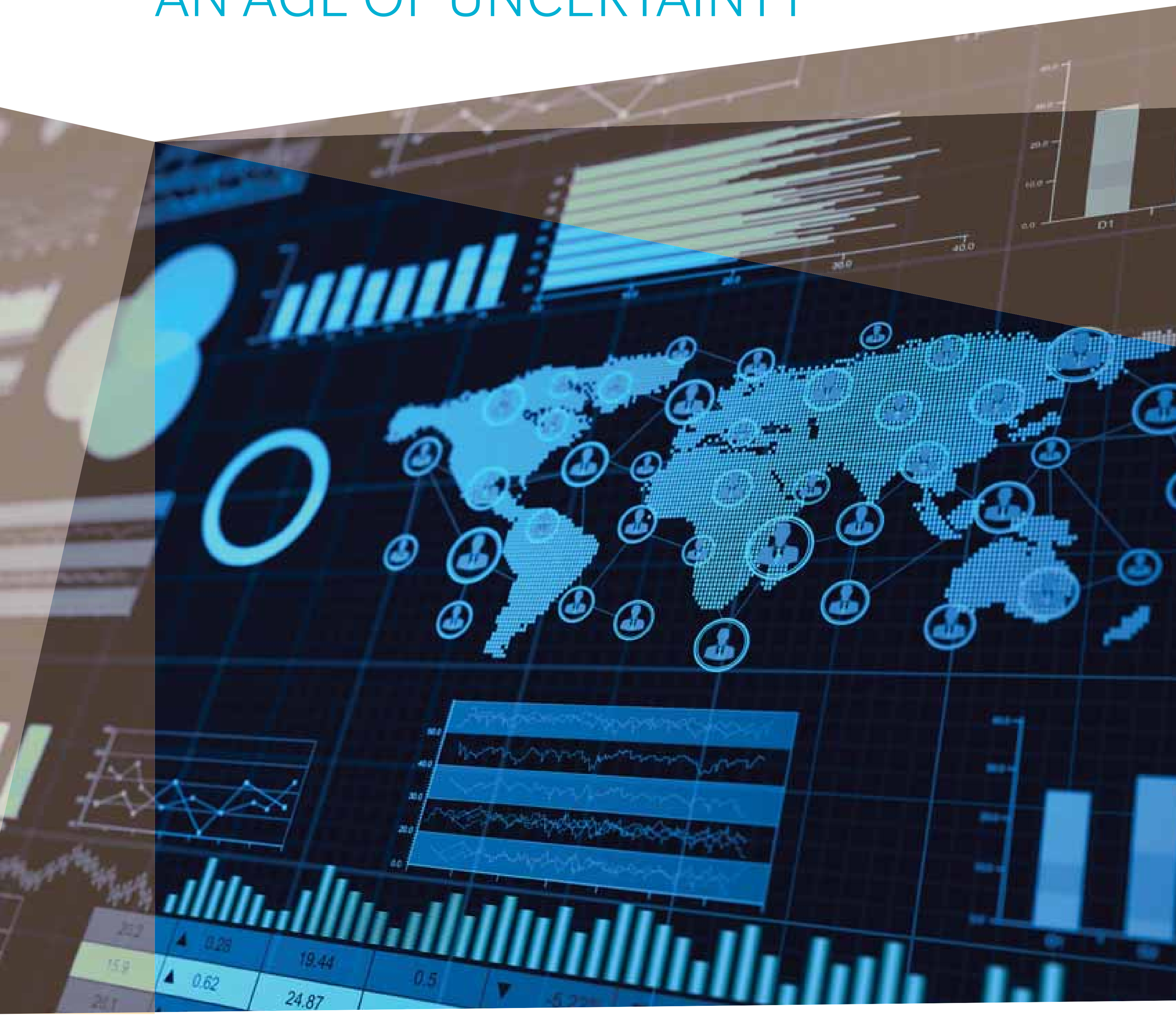
COMPENSATION PLANNING 2015
FINDING ANSWERS IN AN AGE OF UNCERTAINTY



MARSH & McLENNAN COMPANIES

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The global economic crisis of 2008 seems but a distant image in the rear-view mirror; however, lingering effects continue. Over the past six years, economies worldwide have experienced a rollercoaster ride of promising economic peaks and disappointing valleys. For companies struggling to find and retain critical talent, it has been quite an unsteady ride.

Although economic impact has differed throughout the globe, compensation challenges — though diverse — have been universally felt, from the US to the UK, China to Chile, Sweden to Singapore, and so on. Companies around the world are challenged with a fight for critical talent, competitive compensation in low-growth environments, nontraditional (and lower cost) benefits to retain the best workers, and more. In short, companies are facing unprecedented uncertainties, and many are struggling to come up with answers.

In response, Mercer consultants are sharing their expertise for a look at the latest economic trends and compensation challenges and solutions for companies in diverse markets worldwide. Based on just two questions, their contributions are timely, localized, and brief to allow readers a quick snapshot of each market. At the end of the report, contact information for all contributors is listed for those seeking further insight or wishing to continue the conversation.

In this report, Mercer consultants from around the world comment on the current state of economies and compensation planning in 34 markets across the Americas, Asia Pacific, Europe, the Middle East, and Africa.

These insights have been gathered in response to two brief but overarching questions to help employers make the right compensation decisions for 2015.

KEY QUESTIONS

- What is the state of the local economy and the likely impact on rewards, and how will this heavily influence plan design and pay levels?
- As a result, what solutions should organizations consider as they plan for 2015 and beyond?

AMERICAS

LATIN AMERICA

Argentina

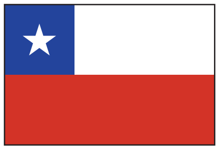
Trends: In 2015, inflation will continue to heavily influence salary decisions, putting pressure on companies to try to match salary increases with inflation as much as the profitability of each business allows. Once again, unionized agreements will serve as a reference for deciding nonunionized employees' increases. For as many as 70% of companies, salary adjustments will continue to be made twice a year, and variable remuneration will be a differentiator due to high inflation rates leaving little space for performance differences.

Outlook: Talent retention will be an issue, so companies must act now to prepare for potential economic growth or setbacks that may arise following the October 2015 presidential elections. Another challenge companies will face is the need to balance global consistency with local employee expectations, especially concerning diverse employee perspectives and differing reward interests. The design of performance management processes needs to be part of an integrated talent management program, linked with bonus payments, development tools, and training needs.

Brazil

Trends: The main challenges include inflationary containment, acceleration of economic growth before the presidential elections, domestic uncertainties, and maintenance of a favorable exchange rate in the face of changes in the international arena. The domestic scenario demonstrates a loss of trust, not only from entrepreneurs, but from the general community. Credit has decreased in recent months, the level of default has increased, and unemployment remains unchanged during a solid period, which demonstrates limited job growth. The market forecast calls for containment in labor and a probable economic slowdown.

Outlook: All these factors signal an impact on remuneration of professionals. Estimates indicate that wage increases will be smaller in the near future in light of the current economic environment and real gains at or below inflation. The value of variable remuneration in some sectors will be affected because some companies have not achieved pre-set targets. The national scenario is not conducive to significant improvements in the short term, so companies have adopted a more cautious stance, which will be reflected in reduced employee compensation pools.



Chile

Trends: The economy is one of the main drivers for HR decision-making. The mining industry and its providers and retail are key industries; therefore, the decrease in the copper price and the freezing of some important projects in 2013–2014 have helped slow GDP growth. In addition, the new president has incorporated several new measures, such as a tax reform, that have brought uncertainty and reduced consumption. These uncertainties make companies more cautious in making decisions around hiring, salary increases, and bonuses, among other things.

Outlook: Faced with growing uncertainty, companies should focus on retaining key employees, revising and improving existing career development and rewards programs, and gaining a better understanding of the evolving marketplace. By retaining key talent today and preparing for future turnaround, proactive companies will be better positioned for brighter times. This may occur sooner than later: Mining companies are expected to continue exploration across 2014–2015, stimulating many industries and ushering in a new period of solid growth.

Colombia

Trends: For the past few years, the economy has enjoyed stable growth, mostly due to strong performance in the natural resources industries. Companies, particularly in oil and gas and mining, have invested in continuing large-scale projects. In these sectors, pay levels have risen to above those of all other sectors, including pharmaceutical and financial. Last year, inflation was 1.94%, the lowest rate in several years. In such an environment, salary increases have been around two to three times the inflation rate. Companies have therefore implemented noncash programs to improve their remuneration offerings; at the same time, unemployment has fallen below double digits, which has made an impact in oil and gas, resulting in an intense competition for talent and increase in salaries for skilled positions.

Outlook: The most significant compensation issue companies will face is attracting and retaining top talent. Competitive advantage can be obtained through innovative solutions, such as nontraditional benefits. Although regulations have become more stringent, current laws offer some advantages, and some companies plan to import talent from other countries in Latin America and even Europe. In this effort, companies should ensure they are measuring various HR indicators to have a complete picture of critical talent and how certain actions can affect attraction, retention, and motivation.

Ecuador

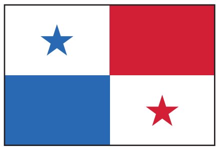
Trends: The economy has recently received a great deal of foreign investment — Chinese companies, in particular, have helped establish a strong oil and gas industry, taking advantage of current investment laws and free-trade agreements. The public sector has become competitive in the war for qualified talent by improving pay levels above those of the private sector. Job generation has remained stable in recent years, and with high labor costs, a heightened struggle to find skilled talent is expected. Labor laws have undergone their first significant changes in 75 years, creating some uncertainty around the reporting, managing, and accounting of statutory benefits. One such mandatory benefit is the new profit-sharing system for all employee levels, which has had an impact on the way companies define their pay-for-performance policies, such as short-term incentives (STIs) and long-term incentives (LTIs) that are less competitive than in other regional markets.

Outlook: Employers that wish to stand out in this highly competitive labor market should analyze their employees' wants and motivators, create new employee value propositions (EVPs), and implement innovative approaches in compensation and benefits, such as nontraditional benefits. In addition, instead of buying talent, often at a premium, companies can develop key talent, competencies, and leadership skills to help pave the way for business continuity and growth.

Mexico

Trends: Last year, Mexico introduced a fiscal reform that affected companies and employees, but so far, companies have not made significant changes to their compensation packages. On the economic front, consumer goods companies in particular have had trouble reaching budget in 2014 and most are actually below budget by rates of up to 30%. If this trend continues in 2015, we expect to see increased interest in reviewing sales incentive schemes. In addition, the change to the energy law that is opening the market to new local and multinational companies is expected to increase demand for certain skills.

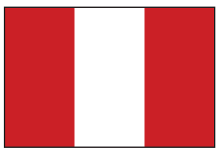
Outlook: More companies are expected to include LTIs in their compensation packages for executives, and this will continue in 2015. At the same time, companies should revisit their STI plans, with special focus on sales incentive schemes. The oil and gas industry will continue to compete heavily for critical talent, and many will create new strategies to attract and retain certain profiles. Now is a good time for companies to review their total compensation packages to eliminate items that employees no longer value.



Panama

Trends: A softening of laws has resulted in an influx of multinational companies, and these new players are bringing new compensation and benefits schemes. For example, STI and LTI schemes are becoming much more prevalent, and this is expected to continue. Recently, the minimum wage increased by between 13%–27% (depending on the region), a large increase considering a GDP of around 7.6% in 2013 and inflation of around 3.8%. As a consequence of foreign investment, high GDP, low unemployment, and new companies in the market, salaries have increased significantly since 2012.

Outlook: Companies will want to improve talent attraction in the coming years, but more important, retain key talent. Panama has posted relatively low inflation in recent years, leaving many compensation budgets flat. In this environment, companies must establish different pay increase levels for average and high performers.



Peru

Trends: As with other Latin American countries, Peru's inflation rate has remained low and the unemployment rate continues to decrease with foreign and local investment. New regulations include contributions to the private pension system or national pension system for independent workers receiving more than the minimum wage. Contributions will be 2.5% of salary for the first year (2014) and will increase annually to 5%, 7.5%, and finally 10% by 2017. Also, employers with more than 20 employees are mandated by law to share profits with employees, a burden for some companies.

Outlook: In order to accelerate growth, companies must develop well-thought-out compensation plans that enhance the attraction and retention of key talent. Many companies will accomplish this through a competitive EVP that includes total compensation, culture, commitment, leadership, and more. At the same time, companies must effectively communicate these benefits so that employees fully understand and appreciate their value.

Venezuela

Trends: Hyperinflation, with 2013 general inflation of more than 50% and food inflation of more than 60%, has created a significant barrier for companies. A related obstacle is the currency-exchange control, in effect since 2003, which has had a substantial impact on companies' competitiveness in the region. Other 2003 local laws also severely restrict companies' ability to reduce their workforce. As a consequence of inflation and scarcity of products, companies are struggling to maintain or improve health care benefits. In the meantime, many companies are looking at nontraditional, less costly benefits that serve employees' emotional well-being.

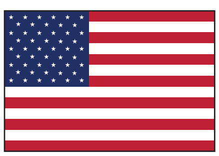
Outlook: Companies that wish to remain competitive — or just survive — are investigating legal ways to make payments in foreign currencies, in order to manage salary increases in a hyperinflation environment, and maintain or improve some benefits. A final, but difficult, task will be retaining top talent — talent that, in light of current conditions, is diligently working to secure overseas opportunities.

NORTH AMERICA

Canada

Trends: Although the economy as a whole has become more stable the past few years, rewards trends, plan designs, and pay levels are heavily influenced by industry sector and geography. In western Canada (Alberta and Saskatchewan, specifically), the economic boom continues, primarily driven by the oil and gas sector. As a result, unemployment levels are very low and a labor shortage exists, especially for engineering and technical job families. Fluctuating commodity prices in the mining sector and the influx of US retailers threaten to destabilize organizations in these sectors, and therefore some are changing their compensation mix to include more variable, "at risk" pay. Aligning pay with performance continues to be critical for Canadian organizations; ensuring that goal setting, goal measurement, and performance management processes are well-aligned across all employee levels continues to be a challenge.

Outlook: To combat the effects of labor issues and help drive engagement and retention, employers should consider more effective rewards communication to ensure employees understand the breadth of their total rewards. Companies will also want to create a more thoughtful workforce planning effort. For example, many of the labor shortage issues in western Canada will be exacerbated by the growing number of retirees. As a result, organizations need to ensure they have the right labor mix to meet future needs. Finally, career frameworks help map out career possibilities for employees by facilitating understanding of the breadth of opportunities in their organization.

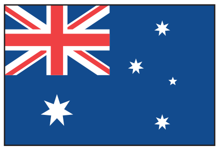


United States

Trends: As the country emerges slowly from the recession, companies continue to examine their return on rewards investment. With limited dollars to spend and a rising demand for certain skill sets — particularly in technology and engineering — companies will need to be more innovative in rewards design and delivery to create competitive advantage. Companies are also relying less on fixed-base compensation increases and more on variable pay to recognize performance of individuals.

Outlook: Companies will need to focus more on building job and career infrastructure to support the integration of talent and rewards programs. This creates horizontal career experiences and associated pay movement for a workforce interested in a broader set of rewards. Employers will look to redesign pay structures to better accommodate career and job architecture and provide greater flexibility to identify and reward different skill sets. Forward-looking companies will also need to enhance pay-for-performance programs, the effectiveness of which is gauged by workforce analytics and planning. In addition, companies will also consider segmented reward strategies to provide more customization of rewards. This will help employers not only control costs but engage the right people, in the right jobs, at the right salary. And finally, these rewards strategies will be enabled by the transformation of HR systems to cloud-based technology.

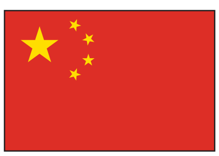
ASIA PACIFIC



Australia

Trends: Economic growth is slowing, essentially following completion of the investment phase in the mining and resources sector. The federal government's inability to receive senate approval on key elements of the budget is also creating uncertainty in the business community. These factors are contributing to declining revenue growth and businesses are increasingly looking to manage costs to maintain profit. The wage growth of the past few years is now unsustainable, leading to more modest remuneration budgets and smaller annual remuneration increases. Funds for any increased or additional reward spend require productivity improvements.

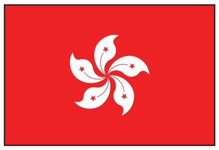
Outlook: The economic climate means that organizations will need to identify where to best invest limited reward spend and strengthen the link between pay and performance. Performance measures and expectations need to be realigned to the business strategy, and annual remuneration increases should be directed toward high-performing individuals, particularly those in business-critical roles or with skills with high-market demand. Eligibility for variable reward plans should be reconsidered to ensure that those receiving payments are delivering measureable returns to the business. Equally, organizations will need to ensure that variable reward programs are paying for performance so that employees who perform are being appropriately rewarded and recognized relative to their peers.



China

Trends: Economic growth is slowing, and many multinationals are challenged to achieve aggressive business goals. Also, the competition for talent between multinationals and local companies is still fierce. The high numbers of people nearing retirement age and the declining birthrate is reducing workforce availability in most first-tier cities. The increasing minimum wage is also affecting the cost of operations, while the mismatch between productivity and skills continues. The pay gap between entry-level positions and function heads is significant, causing many employees to change employers to get pay increases. Although compensation remains important, more employees are looking for a total rewards proposition (e.g. better benefits, employee-friendly policies) as a differentiator.

Outlook: Organizations need to create a compelling, holistic EVP and consider building, rather than buying, talent. Retention and development should be strategic business priorities, and companies should focus on going beyond pay increases and offer innovative benefits that engender loyalty. Changing workforce dynamics and generational diversity are turning companies toward workforce segmentation for effective limited rewards investments. To enhance productivity, organizations are launching wellness programs and using data to analyze organization effectiveness. Regulatory changes should be tracked to gauge the possible impact on labor costs, employee taxes, and so on.



Hong Kong

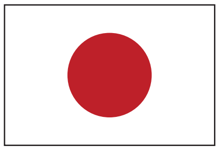
Trends: Continuing high inflation is pushing up employee salary levels and expectations, and the "cash is king" culture is still prevalent. Labor shortages in some labor-intensive industries are raising pay levels; as a result, skilled workers in the construction and engineering industries have been receiving higher-than-average salary increases the past few years, a trend that is expected to continue. Even temporary workers are in short supply, including in the service industry. Overall, GDP growth remains moderate, and companies continue a conservative approach to pay budgets to manage long-term fixed-compensation costs. Also, companies are reviewing their bonus and sales incentive plans to ensure a link between pay and performance.

Outlook: Workforce segmentation is becoming more important as reward resources remain limited. Organizations should implement a pay-increment strategy based on different workforce segments. Also, rather than focus on the pay alone, companies should take a holistic view of total rewards and employ innovative means to attract and retain employees. For example, age is a variable in employee values: Younger workers value career advancement, flexible work, work-life balance, company culture, and corporate social responsibility, whereas older workers value competitive medical benefits, health and wellness programs, smart savings, and retirement plans.

India

Trends: Experts are optimistic for an economic revival in 2016. Sectors including infrastructure, manufacturing, e-commerce, and financial services are expected to receive significant investment, fueling job creation but also creating a gap in the talent supply, which will likely increase pay levels, especially for skilled employees. Large organizations will search for cost efficiencies and differentiate employee rewards based on performance. An increase in entrepreneurial ventures has attracted many professionally qualified young employees. Such startups are unlikely to be cash rich and offer STIs and LTIs and the "startup experience" as part of their EVP. The total rewards package in these companies is likely to include innovative cash and noncash benefits, such as social networking groups/opportunities, chat rooms, and concierge services. Also, medical insurance cost increases and growing interest in employees sharing responsibility for health and wellness will lead to a rise in co-pay programs.

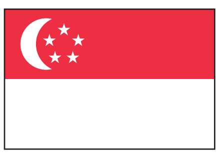
Outlook: Employers should think about total rewards beyond traditional cash compensation and focus on an EVP relevant to the organization demography. To gain a competitive advantage, companies should consider introducing pay systems that assess and reward technical skills, especially at the junior levels; balancing compensation costs against attraction/retention by having differentiated compensation strategies that address performance and demand–supply gaps; introducing nonmonetary recognition schemes; innovating to create an emotional bond with employees and their families; and investing in communicating the rewards value proposition.



Japan

Trends: Economic recovery remains slow and is marred by inflation — in fact, Japan now has the highest rate of inflation among major economies. An aging population, a mature economy, and the high cost of operating in-country mean many organizations are expanding outside the country. Organizations need to prepare for a decreasing workforce and an increasingly aging population — acute challenges that affect performance and productivity. Historically, hiring and managing talent has been rigid, with one-time hiring, tenure-based promotion, assignments without rotation, single-career paths, and assessment based on tenure. In the new business environment, companies will need a more role- and skill-based compensation system.

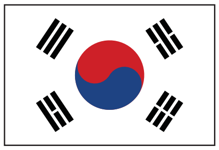
Outlook: Organizations should base evaluations, promotions, and job matches on an individual's skill set. Companies should institute a fair and transparent evaluation and compensation system — regardless of gender or age. To attract and retain top talent, successful companies will offer diverse career paths and roles instead of single-career paths within a narrow area of work. Additional challenges will be establishing adequate salary increase pools during the economic recovery and the ongoing struggle to secure labor.



Singapore

Trends: A shortage of local talent and a decrease in foreign talent (due to entry visa restrictions) are having an impact on rewards, increasing the price of talent, especially in R&D and finance. Organizations must therefore find ways to maintain or increase productivity with fewer employees. The aging population will require companies to rethink the types of employment offered to older workers (e.g. part-time, flexible contracts), the way roles are structured (e.g. more coaching roles), and the manner in which benefits and work environment change (e.g. medical benefits for employees over 65, adjustments to workplaces to ensure productivity). The growing trends of locally hired foreigners and the localization of expatriates mean companies are searching for the right reward packages (so called "Local Plus") and mixing local pay terms with expatriate-type benefits, such as housing, children's education, and additional medical insurance.

Outlook: Along with workforce planning, companies should recognize that high turnover rates will continue, meaning different staffing models for shorter tenures with quicker onboarding for maximum return on investment. Companies should also create stronger links between pay and performance to rebalance demand and supply of talent. With margins getting thinner, companies will have to allocate their tight budgets to reward the most productive employees or groups. Companies will need to do more with less, which may include process automation, outsourcing/insourcing to the right location, and so on. In general, employees increasingly value nonmonetary reward elements, such as work-life balance and company culture/corporate social responsibility. Pay levels must remain acceptable, but this will no longer be the only element driving employee engagement and retention.

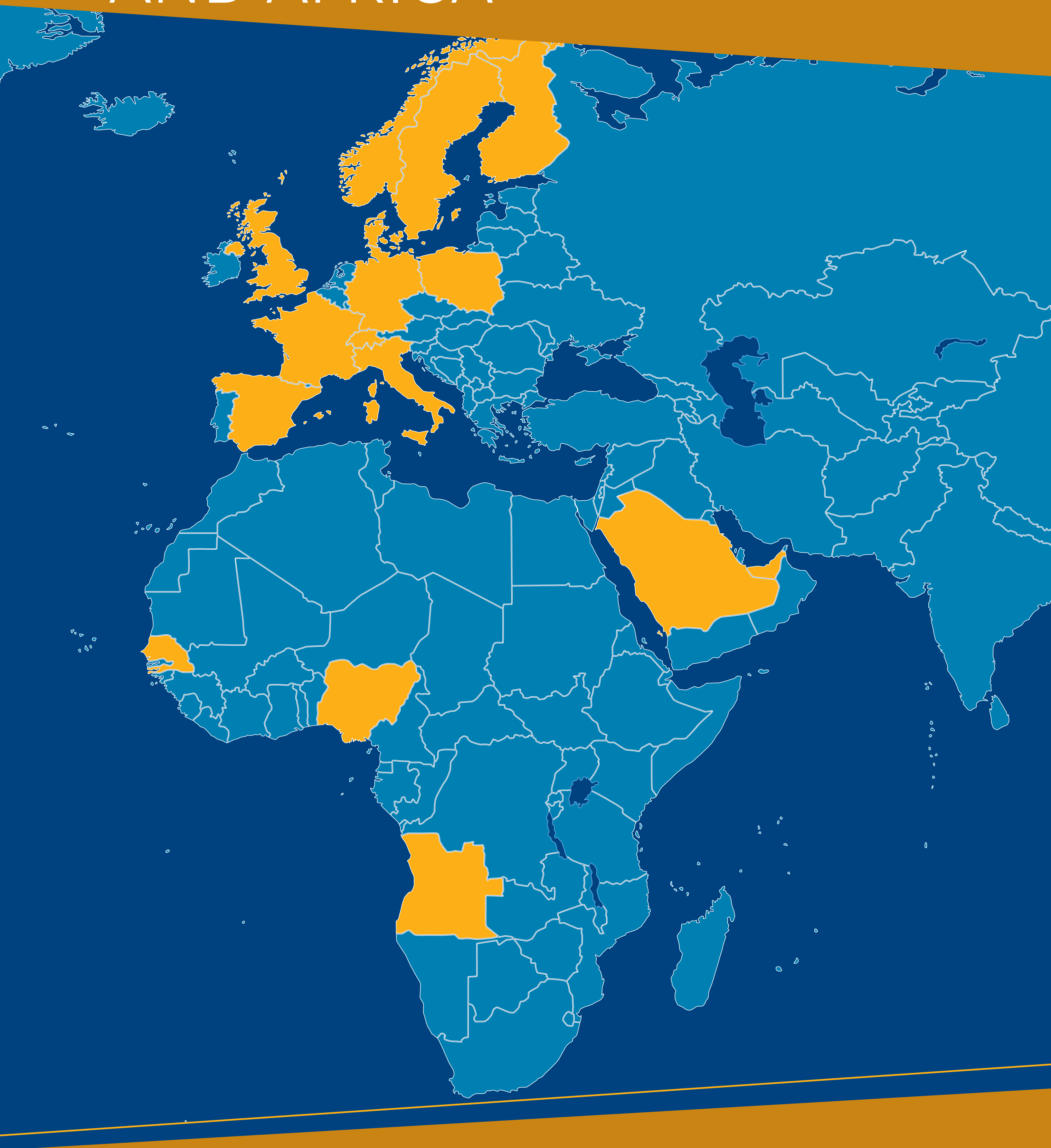


South Korea

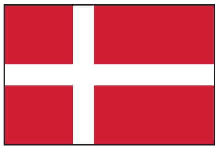
Trends: GDP and inflation rates will most likely impact 2015 salary reviews. In this environment, companies with up-to-date compensation plan designs will consider diverse factors, including company performance and policy, talent segmentation, external market trends, job roles, individual and team performance, and so on. Local companies are accustomed to giving employees a range of allowances, and some of these allowances may not be included in ordinary wages. At the end of 2013, the supreme court ruled that bonuses should be included in the scope of ordinary wages if paid on a regular basis — as a result, most organizations have reorganized their salary structures. The ruling is expected to put a significant financial burden on companies that have not been including bonuses as ordinary pay. In addition, the new guidelines are expected to increase labor-management disputes over the scope of ordinary wages and the definition of incumbent workers.

Outlook: Organizations should simplify their compensation structures to concentrate on annual base pay and move away from salary increments based on seniority or tenure. Job grades should be restructured based on each position's impact on the business with resulting bonuses tied to actual performance.

EUROPE, THE MIDDLE EAST, AND AFRICA



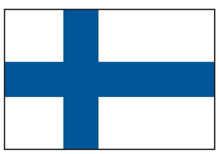
EUROPE



Denmark

Trends: The economy has remained relatively stable compared with continental Europe — in particular Western Europe — over the previous year. However, international competition continues to be a strong influence in an economy driven by trade, and skill shortages are common for critical business positions. This has increased focus on HR infrastructure and its ability to support elements other than reward management, such as strategic workforce planning, succession planning, performance management, key talent management, recruitment, and learning.

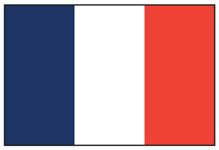
Outlook: From a structural perspective, many companies and HR functions benefit from integrating key HR processes with either existing or updated job architecture. Looking at rewards specifically, salary review expectations remain constrained due to modest growth and low inflation, and companies continue to focus on tying organization and individual performance to the total remuneration delivered to the employee. Successful companies will continue to track the suitability of variable pay plans in aligning the incentives and rewards of executives, leaders, and employees to individual and business performance, as well as key strategic imperatives.



Finland

Trends: The economy has been stuck in recession since 2012; the latest forecasts predict a further fall in GDP for 2014, and EU sanctions against Russia may worsen the situation. Base salary increases will continue to be conservative at around 2%–2.5%. A number of companies will continue salary freezes or selective salary increases, especially those that cut costs and reduce their workforce. Benefits plan reviews will continue as companies try to reduce costs and improve administrative efficiency. Incentive levels will remain stable with no changes to STI and LTI targets and maximum levels in the near future. The focus in plan designs will be on target setting, segmentation, and performance differentiation, rather than compensation levels.

Outlook: Organizations should continue to manage and develop their rewards, including financial and nonfinancial elements. Changes in employee attitudes and values are making nonfinancial rewards (such as job content, career opportunities, and job security) more valuable differentiators. Organizations should ensure that reward practices and policies are fully linked with the strategy, performance, and talent management processes, and that STI and LTI plans are modified to reflect the challenging economic environment and new business priorities. Management of base salaries should be dynamic, business-oriented, and performance-driven. Salary budgets will remain limited, so companies will need to focus on performance and talent management, workforce segmentation, and individual level differentiation.



France

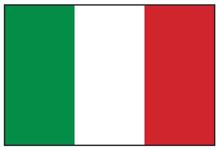
Trends: The recent sharp decrease in inflation and increase in unemployment is an unusual situation for companies. The construction of salary increase budgets is therefore difficult as organizations prepare for the annual compulsory negotiations with trade unions. As a consequence, organizations will focus on key people retention, alignment of pay with collective bargaining agreement grades, and implementation of STI plans rewarding value generation.

Outlook: In this context, companies are expected to emphasize STI plans designed with ambitious targets and that align bonus payout with value generation (free cash flow, ROI, etc.). Multinational companies now tend to differentiate compensation policies between mature markets and emerging markets to optimize their workforce strategy. This includes greater use of pay positioning diagnosis, implementation of STI plans with regional differences in design and payout levels, a strong link between performance and rewards, and the development of career path strategies.

Germany

Trends: Companies will face challenges motivating and engaging their workforces — especially top talent and high-performers — with modest pay increases in a difficult business environment, especially in Europe. Current workforce demographics mean notable talent shortages for particular skills and in specific industries, such as mechanical and electrical engineering. As a result, companies are tracking local market pay trends, especially in total remuneration. Employers are increasingly focused on both STI and LTI plans to recognize outstanding performance in an environment of conservative base salary increases. In addition, many companies are simplifying plans and harmonizing plan designs across businesses, countries, and regions to save resources and costs.

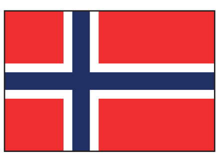
Outlook: More multinational companies are viewing compensation and benefits as a corporate function to ensure a globally consistent, proven, market-leading reward standard and methodology. Many companies intend to integrate and support a job and career architecture and framework, enhance job evaluation and grading, and consistently benchmark positions.



Italy

Trends: Public and private organizations face strong headwinds as they try to escape the lingering effects of the economic downturn. This struggle is highlighted by recent economic indicators, such as industrial production (0.4% on a year-to-date basis) and second-quarter GDP (-0.2%), which technically qualifies as a recession. As a result, companies are restructuring their organizations and workforces, focusing on cost saving, decreasing merit-increase budgets and recipients for salary policy, and identifying incumbents eligible for merit-increases more selectively. This year has seen a significant increase in IPOs (more than 15 IPOs by mid-2014, compared with six over the past 10 years), likely due to the need to gather external assets, and this has a significant impact on executive remuneration, transparency, and governance.

Outlook: Although challenged with lowering labor costs while maintaining employee engagement, organizations can implement some cost-effective measures to motivate employees. Companies can redefine merit criteria toward a more strict and selective model that rewards roles with greater business impact; they can rebalance the pay-mix structure toward a more relevant at-risk pay portion (reinforcing the link between pay and performance); they can leverage a total rewards concept in salary plans to include benefits and flexible benefits (less common among Italian companies), intangible elements, and the usual base salary; and they can strengthen their communication efforts and tools (e.g. online total rewards statement).



Norway

Trends: The energy industry is the largest sector in Norway so the economy is largely driven by oil prices. In the near future, a slowdown in growth is expected, which may lead to smaller pay increases. Many companies are revisiting variable compensation programs, and STIs are expected to shift focus from guaranteed payments to performance measured by metrics tied to corporate performance.

Outlook: Although employers can take a number of actions, significant change is expected to take one to two years. Norway is slightly behind the curve on pay-for-performance in comparison to the region, and additional changes will come from pension reform —organizations are shifting from defined benefit to defined contribution, a mandatory change.

Poland

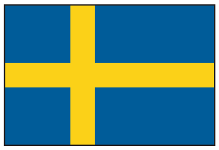
Trends: The recent macroeconomic situation has been stable, with inflation (1%–1.5%) and unemployment (10.4% in 2013, decreasing to a forecast 9.9% in 2014) largely in check, which has ensured stability of workforce policy. The market, however, is one of significant regional and sector differences, making planning difficult. For example, applying only the inflation rate to determine merit increases is difficult, because the levels of investment in salaries differ significantly among sectors. Some sectors, such as oil and gas, consumer goods, and retail, are affected by trade with Russia and Ukraine. In these industries, salary freezes and employment reductions can be applied. Although local organizations can make decisions relating to cost and workforce effectiveness, to a large extent, subsidiaries must implement headquarters' standards, meaning that in addition to the relevant operating profit, companies must also meet workforce effectiveness conditions.

Outlook: Forward-thinking organizations should focus on talent retention and implementation/review of pay for performance. Total rewards elements, such as benefits and merit increases, will remain stable, but employers should strive to contain costs where possible. Companies will continue to face decisions on determining critical talent or those employees most responsible for competitive advantage. To retain and motivate this critical segment, companies can consider possibilities including participation in share plans, cash retention plans, or individual development plans. Successful businesses will also want to shift to pay for performance with variable pay (both annual bonuses and sales incentives) used as incentive. HR departments should therefore focus on goal setting and motivational pay for results.

Spain

Trends: Business results have improved, which has a positive effect on plan design and pay levels. At the same time, employers are beginning to differentiate by performance at all levels and are applying more structured compensation models by level. Furthermore, as unemployment declines, filling key positions will become a growing challenge.

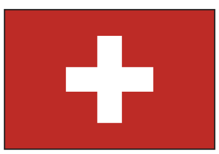
Outlook: If the economy continues to improve, companies must work even more diligently to fill the right positions with the right talent, beginning with a sound talent management strategy that outlines the unique business situation and identifies vital positions and profiles. Based on the business model, companies can consider compensation that is competitive in terms of cash and careers in order to attract, motivate, and retain key people. If the current trend continues, the struggle for critical talent will only intensify, and those employers that act early will have a significant jump on the competition.



Sweden

Trends: The economy is growing, driven by a strong pick-up in private investment and consumption. Unemployment is projected to fall markedly in 2015, which should help push up inflation toward the 2% target. Companies face a number of challenging regulations that may have a significant impact on compensation decisions. For example, in the financial sector, employers face a 100% bonus cap of base salary, as well as mandatory deferral of STIs. The need for critical talent, especially within engineering companies, is increasing, and as a consequence, more aggressive pay increases are expected for hot jobs along with an increased focus on EVP.

Outlook: Companies should emphasize communication so that employees, especially those vital to business success, understand the connection between performance and pay. Employees should fully comprehend the value of their total rewards, including pension plan contributions, incentives, careers, base pay, benefits, and so on. To do this effectively, however, HR must employ data and metrics to understand what is happening in the workforce, going beyond anecdotal evidence. A company using state-of-the-art analytics can examine a number of scenarios that can help shed light (and potentially reduce costs) on various talent management decisions.



Switzerland

Trends: The economy is performing well, despite waning competitiveness, low multifactor productivity growth, and monetary conditions below recent equilibrium levels. GDP grew by 2% in 2013, and unemployment was around 4%. Salary increase levels are not expected to exceed 1.5%–2% across all employee levels. A rethink of remuneration policies in the financial sector will be triggered by the proposed European Commission Capital Requirements Directive (CRD) IV. Although not binding for Swiss banks, CRD IV will have a major impact on pay mix and structure, such as increases in base salary or other components of fixed compensation, decreases in variable pay at risk, and an increased duration of vesting periods to five years for various types of deferred compensation.

Outlook: As compensation levels for the broader workforce remain stable, forward-thinking organizations will redefine their compensation frameworks to consider more benefit elements. Communication of the total rewards package — value as well as content — will become a high priority. Segmentation of compensation planning, not only by performance but also by job type and career level, is also a hot topic.

United Kingdom

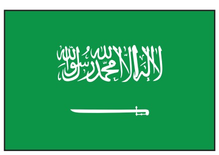
Trends: Unemployment is now at its lowest level in six years as the economic recovery gathers pace and business confidence increases. Wage inflation, which has been below real inflation in recent years, is predicted to remain at 3% for 2014. As competition for talent increases, organizations are adopting workforce planning to segment and understand their talent needs, and they are reviewing how they differentiate their offering in the market place. There is increased focus on the EVP and ensuring reward programs both deliver organizational objectives and align with employee interests. Reward trends in industries such as financial services and utilities continue to be shaped by regulatory intervention with greater use of risk-adjusted performance structures and revisions to incentive practices to protect consumer interests. For critical talent, pay levels will continue to rise, with demand for engineers, especially in the oil and gas sector.

Outlook: Forward-thinking organizations are focusing on ensuring they achieve best value from total rewards through excellence and communication. These organizations are critically reviewing their offerings through the lens of the employee to develop compelling EVPs. In 2015, more organizations will build workforce planning capabilities to understand future talent requirements and compensation implications in the context of their long-term strategy. Understanding and enhancing employee engagement will be a key focus as the economy recovers and career progression again becomes an active part of the EVP. As resources remain finite, employee segmentation will ensure reward programs and available spend are appropriately targeted to support and protect the talent required to meet business needs.

United Arab Emirates

Trends: The market is heating up again due to the global economic recovery and ambitious plans to make the country a major global hub. Employers are therefore challenged by serious issues around talent attraction and retention. As the cost of living continues to rise, mainly due to high accommodation costs, employees are more concerned about their standard of living and their ability to maintain their current lifestyle. On the other hand, the large expatriate population that dominates the workforce is staying for longer periods, which is driving a change in lifestyle behaviors and a focus on longer-term remuneration components, such as benefits, training, and career development.

Outlook: Although cash remains the larger and most important remuneration component — thanks to the tax-free environment — leading organizations are building their EVP on greater differentiation and longer-term elements. This strategy is proving effective from a retention perspective, but companies are struggling to build a strong brand for attraction. As the workforce becomes more educated about the value of certain benefits (such as medical, life, flexible hours, and onsite lifestyle facilities), many organizations are offering a stronger benefits package. They also are more effectively communicating the value of the package, which can be a real competitive advantage. Also, more sophisticated solutions, such as flexible benefits, are emerging as ways to attract and retain talent.



Saudi Arabia

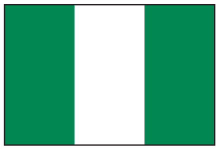
Trends: The market has been one of the fastest-growing economies in recent years. Real GDP growth averaged 6.5% per year from 2008 to 2013, with non-oil business growing at an even faster average rate of 7.75%. The strong economy is resulting in a very aggressive talent market, mainly in the private sector. The government is implementing strong regulations and initiatives to encourage organizations to hire locals, so employers will need to improve the competitiveness of their compensation plans and pay levels to attract the right talent and retain good performers across various levels (executives, management, professional, and para-professional). Also, the recent implementation of the unemployment benefit scheme (Hafiz) has forced organizations to offer more attractive and creative compensation packages to encourage citizens to join.

Outlook: Organizations should focus on building and maintaining their brand by exploring and investing more in training and development, and by considering competitive benefits and pay. Generally, organizations with the most enticing EVP will be best-positioned for success. A one-size-fits-all EVP is no longer going to work in a dynamic job environment, and those who ignore the signals will end up paying the price.

Angola

Trends: As of late summer 2014, the economy was reasonably stable, with the kwanza holding steady between 96 and 88 kwanza to the US dollar. This means that companies have not had to react to any sudden increases in inflation as witnessed in several other sub-Saharan African markets. One of the most pressing issues for the government is to change the way companies compensate local suppliers, which includes local national employees. Until recently, employees could have been paid in US dollars using a US-dollar bank account; however, new legislation requires all local national employees to be paid in local currency through a local-currency bank account. Since the regulation change in mid-2013, the number of companies stating and calculating employees' salaries in US dollars has definitely contracted (79% in 2012 to 43% in 2014). Furthermore, the number of companies paying employees in US dollars has declined significantly (66% in 2012 to 2% in 2014). The majority of employers calculating employees' salaries in US dollars are in the energy sector; such packages are then converted to local currency once a month for payment. Another challenge is the high cost of living — the capital, Luanda, is consistently rated the most expensive city in the world. Although the CPI has been stable for a sustained period, employers must still deal with the very high cost of living and the extreme costs of housing, especially housing provided as a benefit to expatriates.

Outlook: If they have not already done so, companies should start converting all local salaries to kwanza. A suggested approach is to use a US-dollar-to-kwanza exchange rate of US$1.00 to AOA100.00 to compensate employees for any possible transactional losses. Employers should ensure that compensation and benefits are in line with local practices, focusing not only on cash, fixed, and variable, but also on noncash benefits, such as employer contributions to medical care, social security, group life and group personal accident coverage, and benefits in kind (e.g. cell phone and company car benefits). With more and more companies offering a housing provision (either through company-owned housing or allowances), it is important for employers to consider the options available.



Nigeria

Trends: The market is currently stable with limited factors affecting local rewards trends. However, there are signs that the government is planning to increase contribution levels to the mandatory pension fund. Companies will have to increase their contribution from 7.5% to 12% of monthly salary. Currently, the contribution is calculated only on base salary, housing, and transportation allowance; the proposed change will increase employment costs and affect net revenue.

Outlook: As the government closes loopholes in tax legislation, the structuring of many cash allowances will no longer be tax-beneficial for employees. This is a highly competitive employment market in which employees will seek new employment with a negligible difference in net salaries. Companies need to ensure that they maintain a competitive market package in line with current market offerings, not only for the cash component, but also for benefits.

Senegal

Trends: The economy has demonstrated sustained growth the past several years, with an average GDP growth of 4%, despite a change in president from the long-standing incumbent Abdoulaye Wade to Macky Sall. The change in power has garnered mixed reviews, but the local drive to increase transparency in the current business environment is strong. Continued growth will directly affect companies' ability to grant salary increases, which are in line with the local inflation rate. Furthermore, meeting business targets will enable employers to retain key employees by paying annual incentive and performance bonuses. The cost of living is relatively high compared with the region, and requests for salary increases are constant. A more conservative reward strategy is needed to ensure employees' immediate needs are met, and companies will need to make special efforts to ensure ongoing employee engagement. Companies should also keep in mind that this is a predominantly Islamic/Francophone market in which religion and family life affect employees, with daily prayer and religious fasting taking priority over business engagements.

Outlook: Companies should comply with local legislation, market pay levels, and benefits provisions. They should also consider introducing a private retirement scheme in addition to the state-provided social security scheme; reinvest in employee training and development; help employees understand the "why" of doing business and the direct impact of their contribution to the company; and provide local employees insight into the job grading/evaluation process to ensure a transparent and defensible job-grading system.

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