While most regions have been affected by the global economic downturn in recent years, Europe has been through a particularly turbulent time. After six quarters of falling employment within the European Union (EU), unemployment is at an all-time high. Demographic issues are also having an impact: as working populations shrink and the number of retirees increases, top talent is increasingly moving overseas.

There are some signs of hope, however. In a session at the October 2013 EMEA Compensation and Benefits Conference in Lisbon, panellists from Greece, Portugal, Italy, and Spain shared their experiences of how the employment market has changed in recent years, and found several emerging trends.

THE PICTURE TODAY
GREECE

Over the past four years, an austerity agenda has been in place in both public and private sectors to tackle Greece’s huge national debt. Unemployment has rocketed, and at 28%, it is the highest in Europe. Young people are facing an especially bleak future: 62% of under-25s are without work and that figure is likely to increase further once public-sector reforms are complete. The retirement age has also increased, cutting down further on employment opportunities as workers stay in the workforce longer. Financial distress for households has been exacerbated by new taxes, which mean that employees are losing purchasing power by roughly 25%.

Employment legislation has changed as a result of these ongoing problems and there has been a shift towards flexibility: collective labour agreements have been abandoned in favour of individual work contracts, termination notice periods have been drastically reduced, and new formulas have been introduced for calculating severance pay.

Employers have been reviewing their compensation and benefits (C&B) approaches. Broadly, earnings have been reduced and benefits — in particular, travel allowances and company cars — reviewed. Fixed-term or even part-time contracts are becoming much more widely used and voluntary redundancies are also on the increase.
Nevertheless, there are some signs of improvement. Tourism continues to be a strong sector — agriculture and transportation are also holding their own — and privatisation projects aimed at attracting foreign investment are ongoing. The innovative products and services originating in the growing number of startups have also attracted a good deal of international interest. In short, Greece is moving from crisis to renewal.

PORTUGAL
The situation in Portugal is very similar to what is happening in Greece, and austerity measures have also taken centre stage in recent years.

A recent Mercer Total Remuneration Survey in Portugal highlighted some key patterns: nominal pay has been reduced in all functional areas across the 300 respondents. For top managers, that pay cut is in the region of 4.9% — massive tax increases have hit the highest earners hard. In addition, salary increases have not kept pace with inflation, so take-home pay is falling.

Salary freezes are still prevalent and have occurred in 30% of companies surveyed. To compensate for the downward pressure on pay, however, benefits are playing an increasingly important role: 86% of companies surveyed were using them to improve productivity and to attract or retain talent. Medical coverage ranks high in Portugal, where the state health system is under considerable pressure, and 90% of respondents offer it to employees.

Postretirement benefits are also changing dramatically. Not only have all early retirement schemes been frozen until 2014 (except for the long-term unemployed), but the CES, a tax applied to higher-rate pensions and payments to retired workers, has also begun to bite and is eating into retirees’ income.

Although good news has been thin on the ground, the financial crisis has brought about a closer alignment between public and private sectors on some issues. Civil servants must work longer hours, for example, and the retirement age has gone up to 65 (and may increase further).

SPAIN
Unemployment has had a dramatic impact on Spain since the onset of the financial downturn and, as in Greece, young people have taken the brunt of it: youth unemployment is now at 56% in some cities in the south — the highest rate in the eurozone (the average unemployment rate for the region is 26%).

Companies are now starting to reinvent their business models to better cope with the tough economic downturn, and those changes have already started to bear fruit. Although internal demand for products and services remains depressed, the commercial balance in the country has become positive for the first time in many years, thanks to a rise in exports.

Important labour reforms are also playing an important role in helping Spain adapt to the new economic realities. Crucially, trade unions have understood that salary increases can no longer match inflation — the trade-off is that jobs are not being cut. As a result of the unions’ more flexible approach, restructuring has been easier and overall competitiveness has been improved. C&B are now being managed on variable terms, and there is a greater emphasis on long-term incentives as companies bid to improve performance and hold on to their staff.
ITALY

Italy still packs a punch in the eurozone: with a GDP of €2.1 trillion, it is the third biggest economy in Europe (the eighth biggest in the world) and is second only to Germany in its manufacturing output. The commercial balance has remained healthy during the downturn, but public finances remain a major issue for the government — Italy’s GDP-debt ratio is one of the highest in the world. That said, if private and public debt are combined, the ratio becomes one of the lowest globally.

Unemployment is lower overall than in Spain or Greece at 14%, but there is a significant geographical split: northern Italy remains one of the richest areas in Europe and has an unemployment rate below the regional median; joblessness is much more prevalent in the south. Over the past year, efforts have been made to protect the labour market and the state has stepped in to support companies in crisis by paying workers’ salaries, particularly in the manufacturing, transportation, and telecommunication sectors.

Pension reform has also taken place and there has been a move from defined benefit pensions to defined contributions. The retirement age has increased to 67. In terms of C&B, salary freezes are still common — salary caps are being introduced in the public sector — and incentives are also being reduced, particularly in the financial sector. As noted above, however, benefits are being used more widely in an attempt to ease the pressure on employees’ purchasing power. Many Italian companies continue to struggle with labour costs and there has been much discussion about how to reduce fiscal pressure on salaries for both employees and employers.

A SPLIT EMPLOYMENT MARKET?

Commentators have indicated some concern that one of the legacies of the economic downturn will be some type of “two speed” employment market, in which there is high demand for a select few but also a huge group of people who are increasingly considered “unemployable”. That scenario may sound all too familiar to older employees — it has never been easy for them to re-enter the workplace following redundancy, but the challenging climate has heightened that problem for those over the age of 55. In Greece, public-sector cuts are also a factor; many civil servants have lost their jobs, but the private sector has no opportunities to offer them. Reskilling these workers would be the most appropriate option, but there is no framework to facilitate that.

There may yet be an important role for mature employees, however. Recent graduates are increasingly leaving the EU to seek work abroad, resulting in a brain-drain that may well represent a serious problem for the region in the future. Tapping into the experience and expertise of older workers may be one way of plugging the talent gap, and in view of moves towards more flexible working arrangements, these workers could be employed on short-term contracts or as consultants to work on specific projects.

IMPROVED FLEXIBILITY AROUND C&B

Structural changes are clearly facilitating flexibility across European workplaces. The C&B agenda has been opened up as a result and is also changing to accommodate not only the economic climate but also, where possible, employees’ preferences. This is certainly the case in Greece, where companies are attempting to offer meaningful rather
than status-driven incentives — business-class travel and many company cars are being done away with.

Variable pay is still being used for executive teams and multinational corporations (MNCs), often alongside a “flex” bonus that allows employees to choose from a variety of benefits and select those most appealing to them. In Portugal, some benefits can be paid without a social security contribution, representing a saving of 23.7% for employers and 11% for the employee.

Sustainability is the watchword for incentives in Italy and Spain. All key performance indicators should impact directly on results; some are being deferred to encourage good performance. In Italy, eligibility is another important issue. Companies realise that they have limited budgets to spend on their staff, but are nevertheless keen to reward the strong performers who are helping to drive and manage change.

TURNING THE CORNER?

It could be argued that as long as we focus on the economic crisis, we will stay in it, and it may be time to start recognising and celebrating success. There is a definite feeling in Greece and Portugal that a corner has been turned. In Portugal, exports are growing, the tourism sector has had a strong year, and Portuguese MNCs are starting to invest overseas and grow in international markets.

Growing stability is also expected for Italy in 2014, but reform will be needed to drive further economic development — a public-spending review is long overdue. Foreign investment in Spain in the third quarter of 2013 was higher than at any time in the past three years.

In conclusion, while the EU still faces many challenges — particularly in terms of rapid demographic changes — its willingness to adapt and embrace a flexibility agenda may see it emerge from the downturn leaner and better prepared for the future.

ABOUT THE AUTHORS

Kris Amiralis is a founding partner and chairman at Better Future LLC and is based in Greece.

Diogo Alarcao is head of Mercer in Portugal. Based in Lisbon, he can be reached at +351 21 311 3868 or diogo.alarcao@mercer.com.

Rafael Barrilero is Mercer’s head of Human Capital Product Solutions in Southern Europe. Based in Madrid, he can be reached at +34 914 568 557 or rafael.barrilero@mercer.com.

Chris Johnson is Mercer’s Global Practice Leader for Leadership and Organisation Performance. Based in London, he can be reached at + 44 20 7178 7343 or christopher.johnson@mercer.com.

Marco Morelli is head of Mercer in Italy. Based in Rome, he can be reached at + 39 06 9670 8200 or marco.morelli@mercer.com.