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TotalRewards QUARTERLY

India • Volume 5 • Issue 3

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The Transience of Tenor: How the IT Industry can Cope

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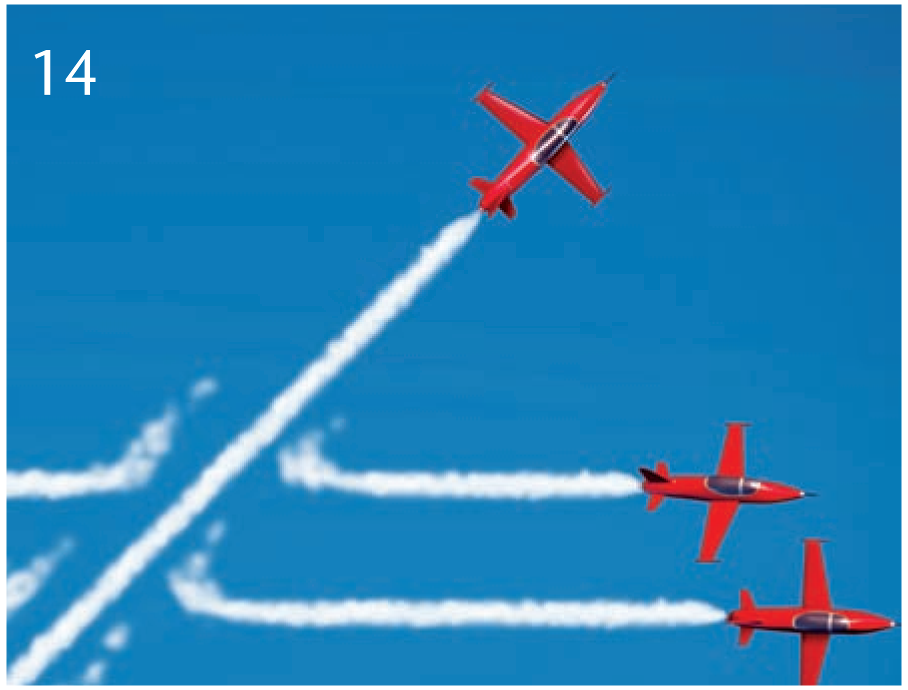

COVER STORY

New Kids on the Banking Block

With the advent of new banks there is a growing focus on leveraging financial institutions to drive economic empowerment for the unbanked segments of the country.

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Upcoming Insights

Aon Hewitt FMCG Forum
May-October

This forum brings together 15 leading FMCG organizations in India to benchmark compensation, benefits and other best practices for on-roll employee population.

Aon Hewitt Consumer Industry Study *September-December*

This study provides benchmark information around compensation, benefits, manning, sales incentives and structures across small and mid-sized FMCG and FMCD organizations.

Engineering Design Forum
October-January

The forum brings together leading engineering design organizations in India to benchmark compensation, benefits and other best practices in managing rewards.

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.

India Hotel Survey *July-December*

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

India Retail Forum *July-October*

The study covers leading organizations, in the retail industry 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.

India QSR (Quick Service Restaurant) Forum
August-December

This forum brings together leading QSRs to benchmark compensation, benefits and other best practices.

India Telecom Towers Forum
February-May

This forum brings together leading telecom towers companies to benchmark compensation and other leading practices.

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.

Life Sciences Forum
August-November

The study covers leading organizations in the contract research, manufacturing, clinical research, vaccine, biotech domains providing robust and comprehensive information on cash compensation and industry trends.

ITeS Industry Study
May-August

The forum brings together ITeS sector organizations to benchmark their compensation, people practices and presents detailed analysis across third party, BFSI captives, other captives and KPOs.

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.

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 metrices.

Salary Increase Survey
Phase I: June-September
Phase II: 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.

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 benchmark their positions, levels, functions and sub-functions across the industry.

Life Insurance Forum Study
September-January

This study covers the largest life insurance players in India covering positions across all channels of distribution and key corporate functions.

General Insurance Forum Study
September-February

This study covers the largest general insurance players in India covering positions across all channels of distribution and key corporate functions.

Private Equity Forum Study
October-January

This study covers the private equity players covering key positions across fund management roles.

NBFC Forum Study
November-March

This study provides compensation insights for large NBFCs across levels and positions in sales and support.

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Dear Reader,

I am glad to present to you the 16th version of our Total Rewards Quarterly. I am guessing you are probably reading through this issue at a time when you are going through your budgeting cycle and are wondering what to place your bets on – a super charged economic growth with its associated HR challenges or a tepid economic environment with cost pressures.

Our issue, this time, is focused on a few sectoral trends – an overview of how we see the consumer goods sector reacting to the changing economic environment around them as well as the impact that payment banks are having on the traditional banking sector. We are also presenting to you our perspectives on how dynamics around employee tenure or attrition is evolving in the technology business.

I am sure many of you joined us at our Annual Rewards Conference in June this year, and for those who didn't, we have put together some photos from the event. But importantly, we have played back some of the insights that we gathered through talking to three speakers from very different generations and industries – Mr. Uday Kotak of Kotak Mahindra Bank, Mr. Anuj Gulati of Religare General Insurance and Kavin Mittal of Hike Messenger.

Brian Dunn is a respected leader within Aon and across the financial industry. He shares with his learnings over the decades and a few honest truths to keep in mind during pay design.

Finally, we are also playing back to you some of our insights from Phase I of the Salary Increase Survey that we ran in August-September. Our long held belief of the fact that companies in India will start trending towards a 10-11% long run average in pay increases has been validated through this round of data collection as well.

We hope the content helps in thinking through performance and rewards questions that you may be debating and we look forward to your comments and suggestions on how we can make this an even more valuable read for you.

Thank you

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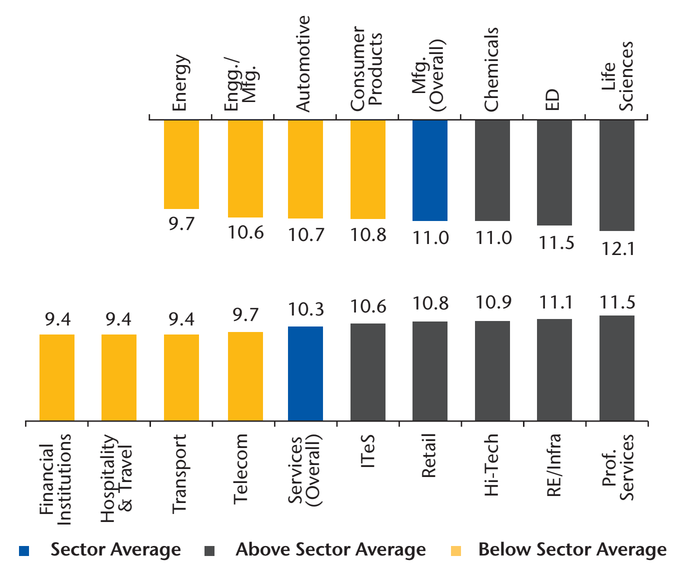
FMCG Sector: On the Road to Revival

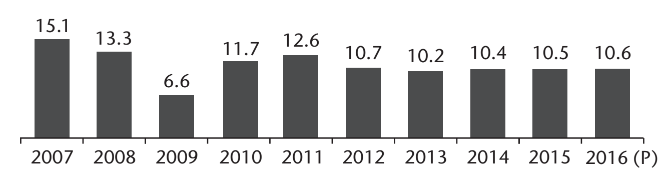
While experts were crystal ball gazing the prospects for India's consumer story for 2015, there was strong hope for revival in the sector that is intricately linked to the overall performance of the Indian economy. 2014 saw the sentiment plagued first by the election uncertainty and then high inflation and cautious salary hikes by India Inc. The overwhelming environment saw FMCG sector bottoming out in terms of the growth rate that had already been languishing in the 6-8% range in the 2011 to the 2014 period. The sector was expected to buck this trend of diminishing growth with a near double-digit rebound. The sector has definitely been in the news in the first quarter

ia's new normal

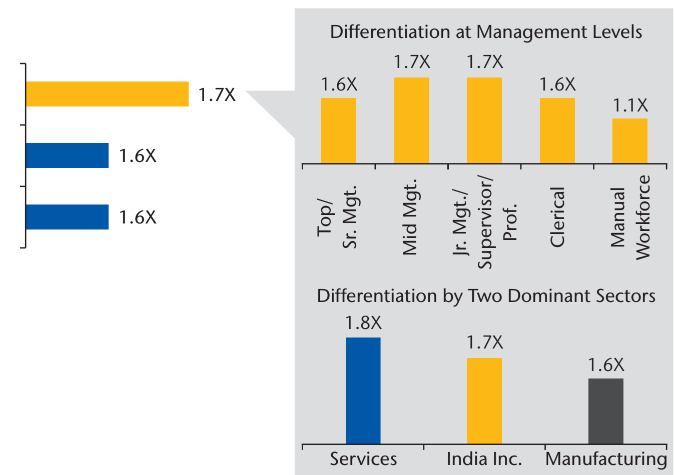


The decadal story of India reflects a sign of maturity. Irrespective of market sentiments, firms in India continue to adopt a cautious approach and do not get swayed away by market led good or not to encouraging news. While 2012, policy paralysis was at its highest and the market sentiment were low or 2015 – where there was the euphoria of a new government and promising future, India Inc. has chosen to stay fairly flat.

While India Inc. continues to be optimistic yet cautious – historical low base of salary and the need to stay competitive in the Asia Pacific region allows India to still continue to be the highest projecting country.



- In spite of adopting a cautious approach, firms still believe maintaining market competitiveness of pay levels and differentiation rewards for key talent are the top 2 rewards challenges
  - As organizations try to move away from a socialistic approach, differentiating rewards for key talent and ensuring competitiveness in pay levels is increasingly topping the charts as a reward challenge
- At 1.7X, the year-on-year salary increase for top performers continues to increase
  - Decline in salary increase for low performers is becoming the trend
  - Services sector was observed to provide a greater differentiation to top raters as compared to manufacturing



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

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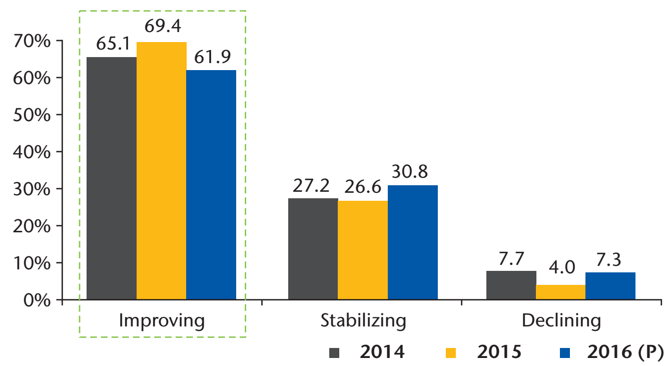
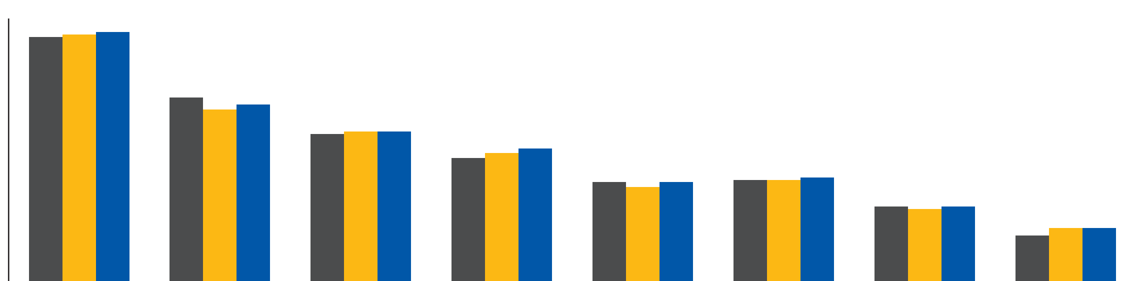
Trend Check

Salary Increase Survey 2015-16: Ind

In 2015-16, 6 out of 10 firms have suggested that there is an 'improving' outlook towards businesses in India. This number was 7 out of 10 in 2014-15. Is the optimism around the new government and improved business performance wearing off? Various research and surveys may suggest – yes, that is the case. However, this dip in the sentiment has not really impacted the salary increase projections for India Inc. in 2016.



- India continues to lead the pack for Asia in salary increases – both 2015 and 2016 (projected). All leading APAC nations are also projecting a marginal improvement in salary increases over previous year
  - India projected an average increase of 10.6% for 2016. Overall manufacturing sector continues to give higher increases than services
  - Junior management continues to report the maximum salary increase as compared to other employee categories (10.9%)



	India	China	Philippines	Malaysia	Singapore	Hong Kong	Australia	Japan
2014	10.4	7.9	6.4	5.4	4.4	4.5	3.4	2.2
2015	10.5	7.4	6.5	5.6	4.2	4.5	3.3	2.5
2016 (P)	10.6	7.6	6.5	5.8	4.4	4.6	3.4	2.5

■ 2014 ■ 2015 ■ 2016 (P)

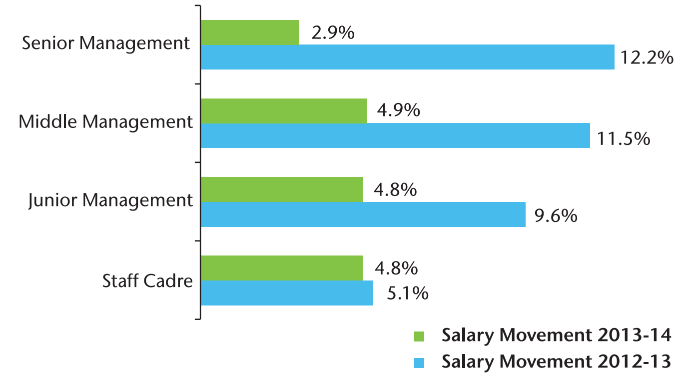
of the financial year not entirely for the right reasons and the jury is still out on the prospects for the rest of the year.

Muted Year-on-Year Median Salary Movement

The diminishing growth period has had a direct impact on the salary increases as well, which at an overall level has more or less plateaued in the 10-11% range over the last 3-4 years. This trend becomes even more prominent when we compare the year-on-year movement in the median salaries across management levels that have flattened out in the 4-5% range across most levels. This is a dip of more than 50% as compared to the median movement during the 2012-13 period.

Graph 1

Median Salary Movement (Y-o-Y)



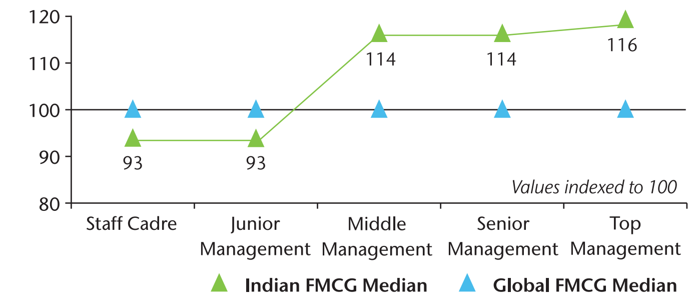
Unless the expectations of a positive consumer sentiment on the back of strong macroeconomic indicators and a low consumer price inflation environment translates into dollars hitting the bank for the FMCG majors, the advent of 'acche din' for talent in this sector may end up being a long-drawn process.

Indian Vs. Foreign – Not So Much a Chasm

Comparing level-wise median salaries on a Total Cost to Company basis at India headquartered firms vis-a-vis foreign firms throws up some interesting trends. The Total Cost to Company at the middle, senior and top management levels is approximately 14-16% higher in foreign MNCs as compared to Indian organizations. The median salaries at the entry and junior management levels are seen to be marginally higher for Indian firms. This is largely owing to the fact that the foreign firms see a higher churn of talent at this level whereas the Indian firms have a fairly tenured base. Since talent availability at this level is not a major threat, foreign firms have been able to effectively plug the talent leak at controlled costs, thereby maintaining lower overall median salaries at these levels.

Graph 2

Median Pay – Indian Vs. Foreign



At approximately ₹16 lakh per annum, the cost per FTE at a foreign FMCG set up is approximately 25% higher than the cost per FTE at an Indian firm. However, this is expected to be a cause of concern in times to come. With ever increasing pressure on business performance, the payroll costs will be a closely monitored metric as business leaders armor themselves with talent and rewards go-forward strategies to win the battle of people and profitability.

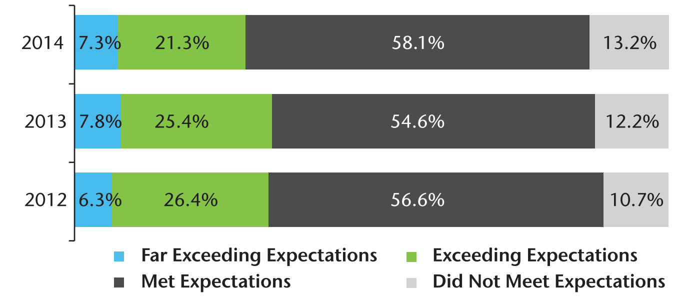
The Trend of Investment in Key Talent Continues

While bell curves may be going out of fashion in the knowledge-driven workforce of consulting and technology sectors, the times aren't changing for the FMCG players yet. They continue their love for the traditional performance management tool. What has definitely changed though is the pattern of employee distribution on the performance curve. With top performers getting salary increases that are up to 1.7 times higher than the average performers, there is an increasing consciousness about linking performance to pay. As a result, only those who matter get differentiated pay. At an overall level, approximately 28% of the population was in the 'Exceeded Expectations' category in 2014, a proportion that stood at approximately 32% in 2012.

The sector has definitely been in the news in the first quarter of the financial year not entirely for the right reasons and the jury is still out on the prospects for the rest of the year

Graph 3

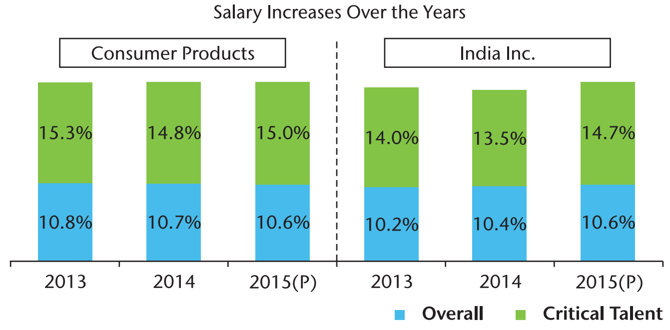
Employee Distribution on Performance Rating Scale



When compared to other industries, consumer products emerges amongst the most aggressive when it comes to differentiating salary increases for key talent vs. the overall population. Firms in the FMCG space are seen to have a formal process of key talent identification which is a pool of high performers, high potential and critical roles.

Graph 4

Salary Increases Over the Years



As reducing costs to ramp up the bottom line continues to be the business prerogative, pay differentiation more so basis sustained performance than current performance only, will be the top agenda item of rewards managers across the board.

Rewards & 'Pay at Risk'

The other critical lever that the compensation managers are using to reinforce the performance and rewards linkage is 'Pay at Risk'. Over the years, an increasing portion of the salary is being parked in the variable pay kitty – annual bonus and Long-Term Incentives (LTI). While the pay mix has remained more or less constant at the junior management, the significant shift towards variable pay and LTI can be observed at the senior levels. In addition to using long-term incentives as a retention hook, there is an increased focus on the element as a means of wealth creation tool for the senior and top management. LTI as a percentage of Total Cost to Company has increased from 17% in 2012 to 26% in 2014 for top management. Stock options and restricted stocks are the most prevalent vehicles of LTI for the major players in the sector.

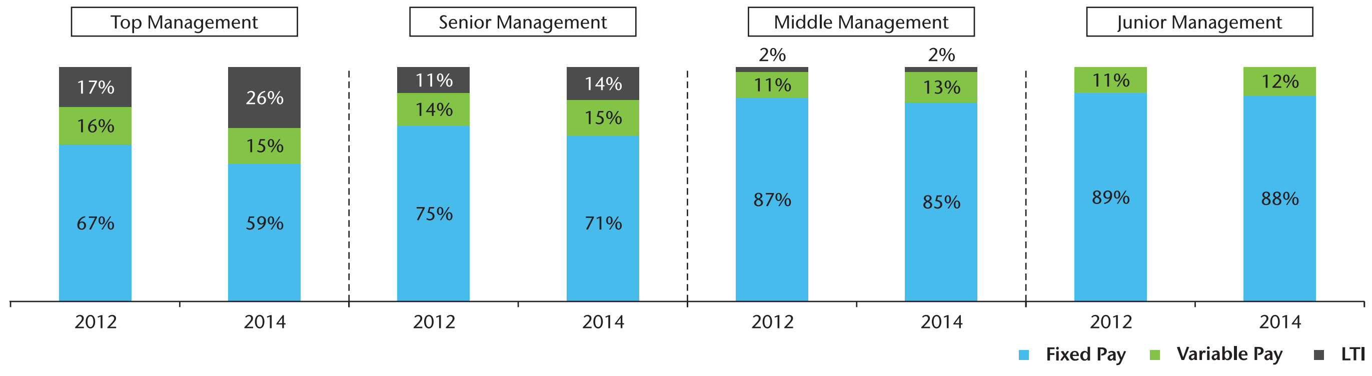
In recent times, vigorous variable pay plans have become a pre-requisite for any reward mechanism to be successful. While majority of the firms in the sector are seen to have a cap on the maximum variable payout, this on an average goes as high as 150-180% of target. Rewarding talent for exceptional performance and thereby setting performance benchmarks not only inspires individuals to work hard and achieve professional goals, but also acts as a compelling tool to curb mediocre or humdrum performance.

Variable pay was and will continue to be an important component of compensation in the FMCG sector across management levels. Though the form of variable pay is still restricted to individual performance, a few companies are now exploring other forms of cash bonus that promote higher accountability and retention such as Company Profit Sharing, Deferred Cash Plan and Team/Group Awards.

Are Benefits Making a comeback or is Cash Still the King?

Over the last few years, organizations have become increasingly conscious about the importance of benefits as one of the major retention tools. Firms have matured to the

Graph 5



Moving to Tier 2 and Tier 3 city helps management control attrition but more importantly reduce cost as the talent available is prepared to work closer to hometown at much lesser cost as compared to any Tier 1 city

to look at as well to offer a complete package to the employees.

Looking only from a rewards perspective, organizations offer different components of rewards which are tenure-linked. This can act as a motivating factor for employees and encourage contribution to business growth. Some of these key rewards elements are mentioned below:

1. Long-term incentive/Deferred cash plans: This is a major incentive used by all start-ups and new age firms as well as firms competing for talent with start-ups. Majority if not all start-ups/e-Commerce organizations offer long-term incentives or deferred cash plans at campuses to promote longevity and encouraging students to stay longer in the organization
2. Long service awards: While not a new age reward benefit, long service awards has been an integral rewards and recognition benefit in most organizations for years and continues to be relevant even today. The change noticed however, is that the years for which the long service awards were granted have reduced. This can be attributed to the dynamic talent landscape and more companies introducing long-term service for three years completion and in some cases, even two years completion in the organization. These are considered as more of motivational awards than retention awards
3. Retention awards: This award is special and given only key talent or top performers of the organization to ensure that critical talent stays within in the firm and the knowledge base remains within the organization. This is also linked to identification of key and critical talent which may not be managed through a robust assessment and can bring in subjectivity
4. New age benefits: There are newer benefits and privileges that organizations have started offering which are linked to tenure in the organization. Some of these benefits include awarding employees with gifts ranging from vacation homes in exotic locations to super bike setcon completion of a certain number of years in the organizations. Such benefits can act as a major incentive for the Gen Y and millennial population to stay longer in the organizations, as they cater to the changing employee demographic
5. Learning & development opportunities: Tenure linked learning & development opportunities are not so common but few organizations also give preference in L&D opportunities to employees who have been loyal to the firm. Depending on the L&D program organization have different tenure criteria/eligibility for employees

Best Way Forward

With this article, we attempted to shed light on the importance of tenure in organization both from the financial as well as non-financial perspective and share some of the new age practices companies are adopting to incentivise employees to stay. Achieving this objective requires firms to look at rewards and other HR elements from a new lens to understand the issues faced by the changing workforce and provide new solutions which best address the new age demographic.

Data Source:

**UNDP India, NSDC India*

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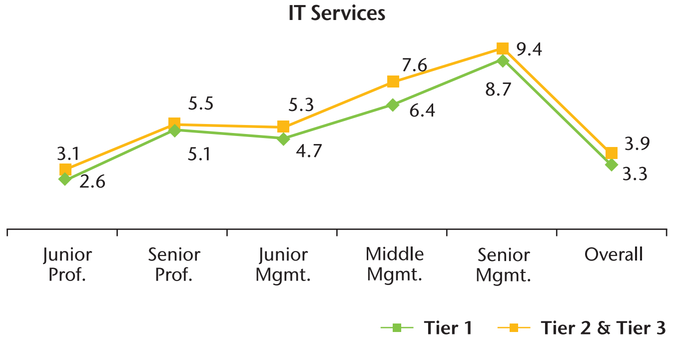
from the market. If an employee stays longer than three years in the organization and progresses up to a level of senior management, the employee is cost-effective as well as helps the organization to retain the knowledge built over the years within the firm. Hence, from a cost perspective, promoting leaders coming from within DNA of an organization looks like a more favorable option than to hire talent from outside. This is only possible if companies start investing in learning & development initiatives at the entry level bands in the organizations. This also ties in with the fact that large and mature organizations have started leadership development programs for campus recruits and give them the opportunities across all the major functions to help them develop a holistic understanding of the organization.

Looking at Tier 2 & Tier 3 Cities Differently

HR leaders and business leaders today are trying to find new and innovative ways to tackle the high attrition rates by exploring solutions which have a long-term impact on business. For this very reason, organizations today are shifting some percentage of employee bases to Tier 2 and Tier 3 cities. Apart from the obvious cost factor, it is presumed that Tier 2 and Tier 3 cities have more stickiness as compared to Tier 1 cities. Primary research within the Aon database throws light on the validity of this assumption.

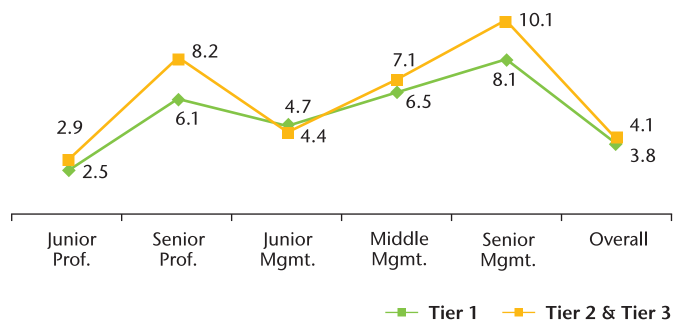
Interestingly and not to our surprise we found that across different sectors (IT services, IT products, third-party service providers and banking GICs) covered as a part of our primary research, attrition rates are lower in Tier 2 and Tier 3 cities with overall average tenure higher as compared to Tier 1 cities. Moving to Tier 2 and Tier 3 city helps management control attrition but more importantly reduce cost as the talent available is prepared to work closer to hometown at much lesser cost as compared to any Tier 1 city.

IT Services



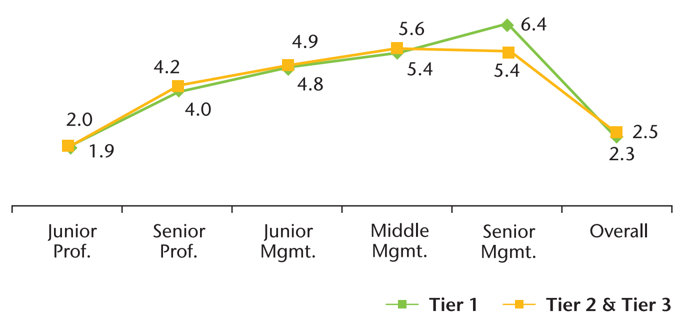
Source: Aon Hewitt Research

IT Products



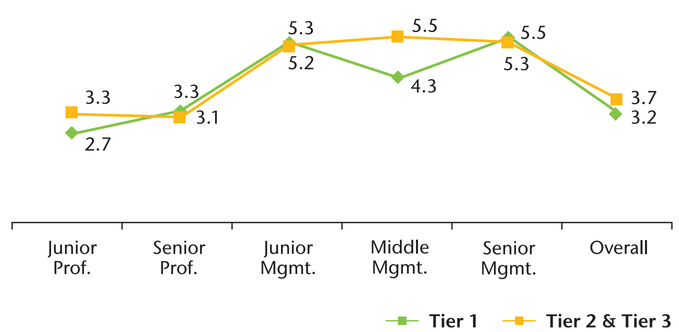
Source: Aon Hewitt Research

Third Party Services



Source: Aon Hewitt Research

Banking GICs



Source: Aon Hewitt Research

Reward Mechanism to Increase Employee Tenure in the Organization

Maintaining the right balance between Tier 2 & 3 and Tier 1 cities is the newest solution to de-risk attrition rate and control cost. This change however, requires some pre-requisites such as – assessment of the potential cities for availability of relevant talent; cost of setting up operations in the city; political and economic stability of the chosen city.

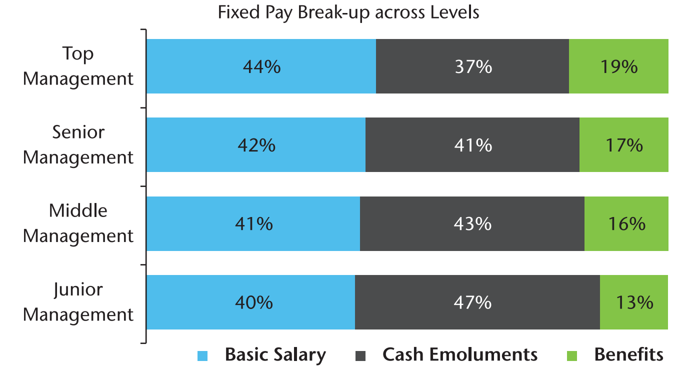
However, moving people across different cities is not the only solution to address the issue of controlling attrition and increasing employee tenure. There are other rewards and non-rewards aspects that organizations need

fact that while offering hefty cash pay would initially attract job seekers, but what would make them stick around is a robust and well-bundled basket of employee benefits. 80% employees feel benefits are an important retention lever. Benefits have emerged as the top retention measure for top management employees. With over 70% organizations in India and over 80% of the firms in the FMCG sector having revised their benefits budgets upwards in 2014 as compared to the previous year, the case for focus on employee benefits keeps getting stronger by each passing year. A majority of the employees today want flexibility in benefits with a menu option and are even willing to make voluntary contributions to get access to certain additional benefits.

Despite the buzz about the importance of benefits, when we take a closer look at the break-up of fixed pay in the FMCG sector, cash still emerges as a major rewards tool, contributing to over 80% of the total fixed pay across levels.

Graph 6

Fixed Pay Break-up across Levels



Even though most organizations provide a wide plethora of benefits ranging from retirement benefits, car related benefits, housing and healthcare, yet this takes up a very small portion of the pie, with majority of the funds still being parked in cash components.

Which benefits are then the flavors of the season? Firms are looking at giving employees the power of choice and providing much more than livelihood benefits which the cash salaries are able to cover for. What employees really value are benefits that one may not be able to attach a monetary value to whether it be flexible working hours, enhanced maternity and paternity leaves, option of remote working, health and wellness initiatives, among others. The phenomenon is beginning to catch up with the FMCG majors who no longer see this as a softer investment but a hard coded business imperative to ensure that they not only have onboard the brightest but the ones they have are healthy, productive and engaged to drive key results for the organization.

Over the last few years, organizations have become conscious about the importance of benefits as one of the major retention tools

Where are We Headed?

The first quarter has been rather slow for the sector due to subdued demands from the urban as well as rural markets. While experts remain bullish on the performance in the medium to long-term, some immediate reformist measures seem essential to translate the feel-good factors into tangible market results. This is bound to bring back prudence at the forefront of rewards managers' white boards. Having said that, there will be skills sets that will be in demand and will in turn command more premium than the others. As digital becomes the all-pervasive phenomenon, marketing professionals in general and digital marketers specifically will rule the roost. These along with the Men in Black manning the Corporate Affairs and Liaising teams will continue to see being paid for the value they bring to the table in the increasingly tightening marketplace – competition-wise and regulation-wise.

Organizations in this sector have come a long way in terms of people and rewards practices and most have a developed rewards philosophy in place. Considering the business environment, rewards differentiation, segmentation and communication will be more important than ever before. A mature sector has its own set of challenges to deal with, and the smarter players in the FMCG sector will have to brace up to overcome these as they navigate the human capital marketplace deftly and diligently.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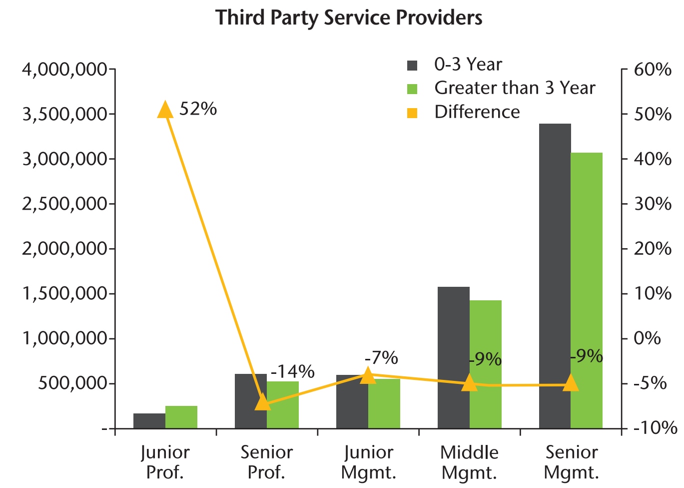
the Modi light burns bright. However, one side effect of this plethora of choices has been the changing definition of a 'career'. Gone are the days when an employee joined a firm as an entry level associate and retired from the same place amongst familiar faces. The workforce today is looking for quick returns and faster growth opportunities.

However, employee turnover is a costly issue. With every employee leaving, a company loses both its financial investment in recruitment, onboarding and training costs, as well as its non-financial investment that can sometimes weigh harder in knowledge, workplace collaboration and competitiveness. HR leaders are coming to realize that and, hopefully, are coming up with ways to address this challenge.

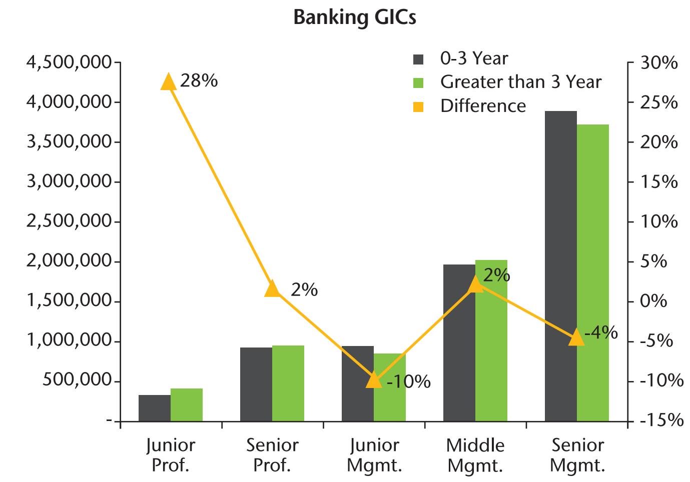
Average Life Span of Employees in IT and BPO Industry

The average life span of employees across the IT & BPO industry ranges from 2-4 years, which means that the organizations are changing its employee base every 2-5 years with a majority of firms lying in the bracket of 2-3 years of average tenure. According to another survey by SHRM on employee tenure, the tech industry had a volatile three years average tenure, which is the lowest average in the last five years. Employees in these industry do not stay at their organizations particularly long and seem to have little connection to or investment in their jobs.

The attrition of the organization has a huge bearing on the overall people cost of the organization apart from the cost incurred on recruiting fresh talent from the market. The below analysis showcase the cost per FTE for different industries for employees which are with homegrown as compared to employees hired fresh out of market.



Source: Aon Hewitt Research



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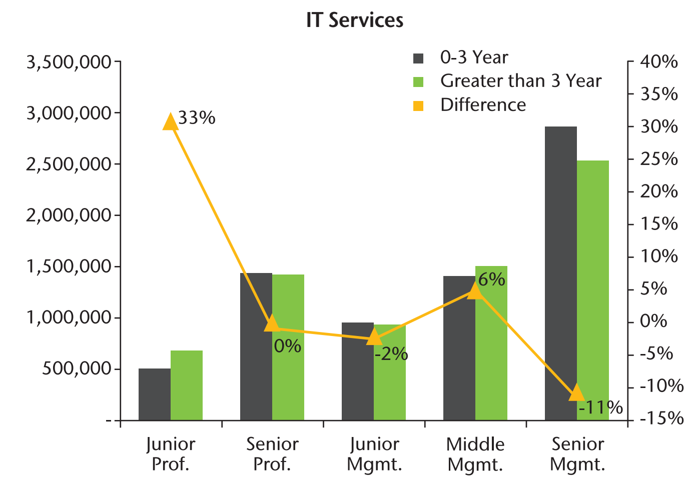

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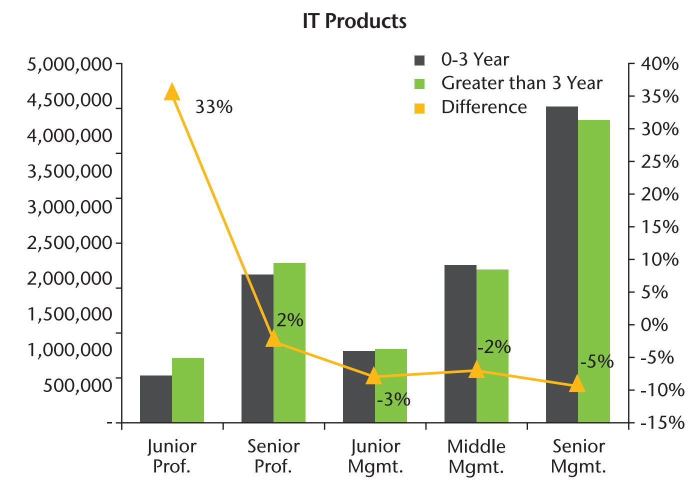

Source: Aon Hewitt Research

The above charts showcase, that irrespective of the industry, if employees stay longer in the organization, they are more cost-effective as compared to talent hired

The Transience of Tenor: How the IT Industry can Cope

Background

As the Indian economy continues to grow, with a projected GDP growth rate at 7% and above for the next few years, India's demographic dividend is also expected to increase with the population growing from 1 billion in 2001 to 1.4 billion in 2026. 83% of that increase is estimated to be in the age group of 15-59 age groups. If the projections were to go by, India will have 25% of the world's total workforce by 2025.*

Also, as the fourth largest base for young businesses in the world and home to 3,000 tech start-ups, India is set to increase its base to 11,500 tech start-ups by 2020, as per a report by NASSCOM and Zinnov Management Consulting Pvt. Ltd.

All these signs point to the growing opportunities for the Indian workforce and the multitude of job choices as

Around the World with Total Rewards







As a young 26-year old entrepreneur in 1985, Uday Kotak started Kotak Capital Management Finance Ltd. (which later became Kotak Mahindra Finance Ltd). In a journey spanning nearly three decades, Uday has not only helped the company grow to this scale but also earn respect.

Uday Kotak

Executive Vice Chairman and Managing Director, Kotak Mahindra Bank Limited

Q. How is India seen today in the global business community from a talent perspective?

A. Talent has been India's strength and it has only grown in the last few years. It is amazing how Indians have done well, not only within the country but also globally. The new generation is focused and passionate and there is a lot to learn from them. They are a lot more secure and confident about their future, than the earlier generations.

Q. How are you seeing the HR climate in the banking industry? Have there been any shifts in expectations of organizations and employees?

A. I would like to believe banks are moving towards a medium-term approach to talent rather than focus on short-term. Historically in India and globally, we have a tendency to have a short-term orientation, particularly in the banking sector. In our firm, we are working towards creating a culture to focus on employees from a long-term perspective.

Q. What are the top three things that you think organizations need to prepare to do differently in the next five years?

A. Firms have to dramatically focus on building greater purpose through the hierarchy of their people. It has to start at the top and flow through the organization. Secondly, there has to be a concept of transformation, and changing focus to medium-term outlook, rather than short-term quarterly focus, including driving people behavior. Thirdly, with the digital space expanding, organizations need to create a culture of entrepreneurship within a corporate firm. The ability to combine entrepreneurship and professionalism is key for the future.

Q. If you were a part of the millennial today, what would be your expectations from a rewards program?

A. If I was a part of any new world starting workforce, the first thing I would expect is the job to be cool and fun. In a way that concept is not outdated, because it is important to enjoy what one does. But the younger generation today, even more so, is ready to throw something away if it does not serve their sense of purpose. How do we make the job fun and fulfilling is the question most companies are working to get the answer to.

Any compensation plan with an uncertainty on the actual payout makes that compensation plan less valuable than something that is certain

less valuable as it will be paid out over 3 years pay with a clawback attached to it. We have done a lot of empirical studies and every time there is a trade off, employees will put a higher discount on the more uncertain compensation. The thing to note, is that this form of pay is highly inefficient. This is because the organization mostly like will ultimately pay out the money but to the individual it had limited incentive and retention impact because it is uncertain. Hence organizations need to make sure that the uncertainty of delivery doesn't discount the value of compensation.

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it is necessary to apply judgment because of external factors that may have affected the organization's financial outcome. The solution lies in finding a place in the middle where the range of compensation is based on specific defined criteria under control of the individual modified by the application of limited discretion to reflect broader corporate factors.

7. Formulas are dumb

They are an easy crutch for those that do not want to think or have hard conversations.

They appeal to those who think linearly and on a single dimension.

By definition, formulas are dumb creatures — they do not think or adapt. They can only operate at a mechanical level. It is very difficult to reduce work responsibilities to a simple formula which pays a % of profit or growth or sales. The formula will get the employee to focus on one thing only and jobs are obviously more nuanced than that. So a formula which provides structure and (limited) discretion is the most suitable combination for effective plans.

8. Extraordinary pay gets you extraordinary results

Great pay leads to the virtuous cycle of getting and motivating the best people which leads to the best results that leads to the ability to pay more.

Using pay as the plug to "make the numbers" will result in a vicious downward cycle.

A very frequent concern I have heard from clients over the years is that the incentive plan pays too much. Although the plan pays on the basis of targets achieved, there are some people who make a disproportionately more money. My first question to these concerns is does high reward mean that as an institution you made more money? Organizations need to have variance. There has to be a balance between people who get paid more money for extraordinary outcomes at both individual and organizational levels and the people with lesser rewards due to their lack of performance. It is this variation that drives the success of an organization. Results that have positive long and short term financial implications for the institutions allows them to share that success with their employees. It is a simple cycle – people get paid well, it drives their performance up, the institution performs better and exceeds targets, the best people are rewarded and the cycle goes on. This is what we call the virtuous cycle of performance.

The opposite of this is using pay to plug your financial number. Assume at the end of the year the organization is short versus budget, and decides to take it out of the employee's pocket. What this will result in is a disgruntled employee workforce who hasn't been sufficiently invested in. Either they will depart or redefine their contributions in the subsequent years. This will impact the organization's financial goals for the next year and there is a downward spiral.

9. Everything takes time

Pay changes will not change behavior, culture engagement or productivity overnight.

A great incentive plan was never created in a day. They never work in the first year primarily because there are trust and legacy issues. There has to be a record of success that the programs organizations have in place are rewarding the right people. People feel the connection between what they have done and how they are being recognized. Properly designed, carefully communicated and implemented, in conjunction with clear strategic priorities is a clear accelerator of all of the above factors. A series of successes will help organizations realize that the plans work effectively. Mostly organizations are always trying to fix something that is broken. This approach doesn't work because they never invest in the gestation period to make a program successful.

10. Uncertainty carries a high discount rate

Lack of clarity around how much and why I get paid will make the ultimate payment worth much less than it costs.

The effects are amplified if the pay is held contingent into the future.

Any compensation plan with an uncertainty on the actual payout makes that compensation plan less valuable than something that is certain. For example, while the salary of an employee is certain, the incentives are linked to multiple factors. One external factor for example could be the corporate performance over three years. All of a sudden, the incentive becomes

A compensation plan is a very powerful communicator of what the management leadership believes is important

Kavin Bharti Mittal is the Founder & CEO at Hike Messenger – the only homegrown IM App. Hike Messenger is a venture of BSB, a JV between Bharti Enterprises and SoftBank Corp. Focused on the mobile-internet space. Kavin is an extreme tech-enthusiast and has been actively involved in the start-up community having founded a start-up of his own.

Kavin Bharti Mittal

Founder & CEO – Hike Messenger

Q. What do you think are the top challenges that organizations like yours can resolve for India?

A. We hope to be one of the companies that connects India and brings it online. We hope to have a chance of reinventing how things are done in the market since everything is being built from scratch. Unlike the US and China, India is still a nascent market and there is scope to build things from the start and rethink how companies are built in India and create an interesting market.

Q. What do you think is stopping more Indian companies from becoming unicorns? With a customer base the size of India, why do we have so few of them?

A. It is a timing thing. Fast forward five years and there will be many more. India is very new in its internet journey and it is only a matter of time. Even though we talk about India having 150 million internet users, not more than half of those are actually proper internet users. The market is still very small and has tremendous scope to grow.

Q. Do you think the increasing hiring in the e-Commerce sector is a bubble? Are firms able to hire the right profiles?

A. It is actually hard to tell as people trends are always changing. No doubt that the new age companies are hiring extensively from the market but I feel that this is leaning more towards a bubble. The companies are in growth stage currently and as the money is being pumped in by investors, companies can afford to hire and hence, salaries are going through the roof. The question is if this pops, what happens, and we are soon reaching a tipping point from a hiring perspective.

Q. What are the top three things that you think organizations need to prepare to do differently in the next five years?

A. One must realize, the new workforce will be at least half millennials and if that is the case, organizations have to understand that the millennials work very differently from the baby boomers. It is important to build an environment and culture to support this change and introduce flexibilities in the older order of working. How do you build a company that adapts to their lifestyle? I believe companies have been frozen in time for the last 50 years despite the culture and people changing. The most important thing for a company is to let the millennials be creative, happy and satisfied with their sense of purpose in their place of work.

Q. Since you are a part of the millennial today, what are your expectations from a rewards program?

A. We believe it is important to educate the millennials about long-term incentives because they also want to serve a sense of purpose and make an impact. The other thing is to do things that fit in their lifestyle. For example, we at Hike have bought a shack in Goa and the best performing teams can work out of there for two weeks. This has been a huge hit and daresay an incentive for improved performance. I think our generation needs to be trusted more, supported more and just given direction and not controlled. That is what we aim for at the Hike.

In his capacity as MD & CEO, Anuj is responsible for setting up this business and working towards making Religare one of the dominant players in the Indian health insurance industry. In his last role at ICICI Lombard General Insurance Company Limited, Anuj was the Director for Services and Business Development. Previously, he has been an entrepreneur and started his career as a Financial Analyst with Procter & Gamble India Ltd.

Anuj Gulati

MD & CEO, Religare Health Insurance Company Limited

Q. The insurance sector has gone through a very rough period. How do you manage to drive excitement and positivity in difficult times?

A. Each one of us as professionals has to understand that for each of our businesses and industries the base of the change and disruptions is only going up. And with every disruption, we have an opportunity. We need to be positive, identify opportunities and then have a relentless focus on execution and galvanize the energy of the larger team towards that purpose. Our focus has since always been on comprehensive customer service which has helped us to differentiate ourselves.

Q. Insurance sector has very high frontline attrition. How do you stem the undesirable segment of this attrition?

A. Attrition is never good. Employees and ex-employees are the biggest brand an organisation can carry in the market. Firstly, there has to be rigour around the processes of identifying candidates and recruitments. Secondly, there has to be significant investment in the whole onboarding journey of the employee by getting them to connect with the organization.

Q. How do you manage the changing requirements of a multi generational workforce?

A. One thing to remember is – Keep the basics going. The entire workforce is in this together for a purpose. The purpose is a larger objective we set for ourselves. Social security lacks in our country. That coupled with historical trust issues have been a cause of concern for customers. We as health insurance providers aim to provide honest products and enable quality healthcare for more people. As an organization, we believe we would have done our due, for the larger good of the society. We have tried to build meritocracy in our organization. So it doesn't matter whether you are an IIM graduate or whether you have worked with a blue chip company before or not. The individual who is open to learning continuously, has an open mind and is willing to change as the company progresses is most valuable. For an employee who is contributing positively, I believe there is no dearth of monetary or non-monetary benefits because at the end of the day, it is that employee who is helping the company scale new heights.

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With more than 35 years of experience in the consulting space and working with clients across the entire talent solution spectrum, Brian is a veteran in the area of human resources. In this conversation, he shares with us the 10 most important lessons for any compensation manager.

'Always remember, fads may come and go, but there are certain enduring truths that have passed the test of time. Experience has taught me that certain truths are relevant across cultures, industries and generations. And you would be surprised that the ideas are very simple, but for many organizations the implementation becomes complex. We just have to remember that there are no quick fixes and all things require patience.'

1. More is not always better

All things being equal, more is better than less BUT all things are not equal. Perceived value is more important than cost.

The perceived value of any compensation opportunity is tied directly to the degree that the recipient believes it is achievable, and realizable.

2. Consistency should not be a goal in itself

Emerson said "consistency is the hobgoblin of little minds..."

Integrity and the absence of arbitrary decision-making are what really count in pay design. It is imperative that there is a structured approach and integrity in the system and no decisions are left to subjectivity. It is also important to remember that this is different from being consistent. An organization needs variations and differences to thrive but they should be grounded in fact.

3. Trust in the decision makers is paramount

People want to believe they are being treated fairly.

Very often plans and structures are created because people don't trust the decision makers. Why is that? Sometimes, it is because employees don't know the decision makers at all. Sometimes, distance between the decision makers and the employees is too large. We need to make sure people believe they are treated fairly. They need to be assured that those making decisions have all the relevant facts and are applying them fairly. We can design the most elegant compensation plans but what really matters is that whether the people to whom these plans will be applied, believe that the plan is fair. There has to be transparency and some degree of fair application.

4. Incentives work

You get what you pay for.

Incentives which are properly structured and are measured against accurate metrics will change behavior.

5. Pay design communicates management priorities

For better or worse, the design of pay program communicates clearly and loudly what management thinks is important.

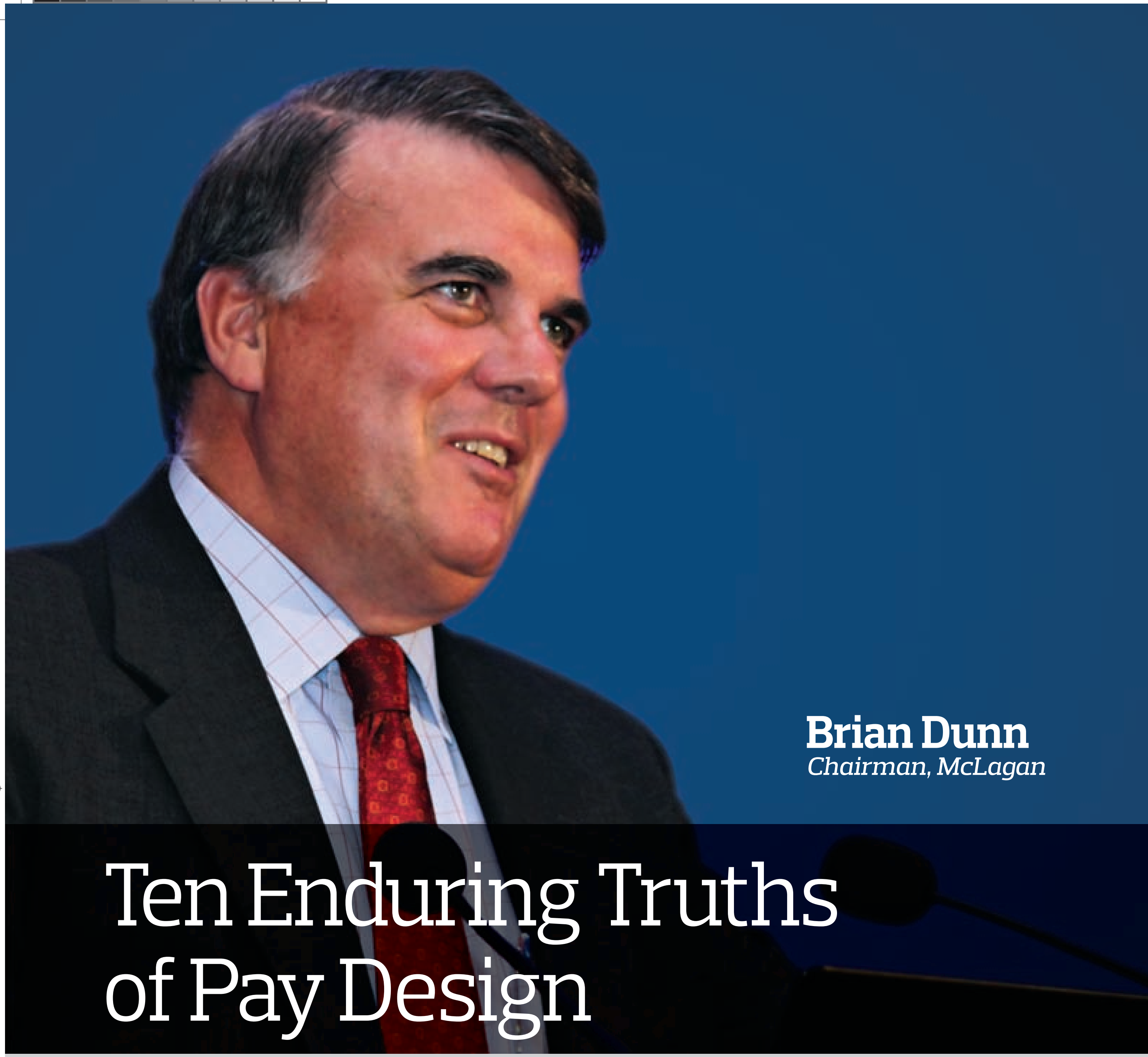
A compensation plan is a very powerful communicator of what the management believes is important. While the management might communicate a focus on quality of work, career progression, freedom at work and cultivating an entrepreneurial culture, what they often pay for is growth and profits. As long as there is a conflict between what organizations say they believe in and what they actually pay for, there will always be turmoil as people will be left wondering what they are really supposed to do.

6. Discretion should have limits

What management wants more than anything else is the discretion to make what they believe is the right decision once all the facts are known.

Discretion is a critical component of every effective pay plan. However, discretion needs to have limits so the employees aren't made to feel that what they receive has been left completely to somebody else's judgment. Employees want to have a line of sight into what they do and what they get paid. Breaking the line of sight between what people do and what they earn dramatically reduces the incentive impact of pay. On the other hand, managers want complete discretion. They need to cross subsidize. There are times when

We can design the most elegant compensation plans but what really matters is that whether the people to whom these plans will be applied, believe that the plan is fair



Brian Dunn
Chairman, McLagan

Ten Enduring Truths of Pay Design

Brian Dunn is the Emeritus Chairman of McLagan. He specializes in incentive and executive compensation and advises the compensation committees and/or management of a number of the world's largest financial institutions.

Prior to joining McLagan Partners in 1998, Brian spent 17 years with Towers Perrin in their New York and Hong Kong offices.

Brian has been actively involved in shaping the financial services industry's response to recent developments in the regulatory environment regarding executive compensation. He serves as an advisor to several principal regulatory bodies including the United States' Federal Reserve, Canada's Office of the Superintendent of Financial Institutions, and the United Kingdom's Financial Investments Limited. Brian is also a special advisor to the Financial Services Roundtable and the Institute of International Finance.

New Kids on the Banking Block

"People were poor not because they were stupid or lazy. They worked all day long, doing complex physical tasks. They were poor because the financial institution in the country did not help them widen their economic base."

- Muhammad Yunus, Author, BANKER TO THE POOR

The hottest thing in India these days (besides the just ended scorching summer) is the advent of start-ups and myriad entrepreneurial ventures that have caught the fancy (and the purses) of investors, financers and customers. A few of these ventures consist of once fancy, fetish favoring bankers who left their high paying and higher profile corporate banking jobs, and started MFIs to reach the unbanked masses and the rural population, that has hitherto remain untouched and unfriended by the banking community. Interestingly, investors aren't the only one making a beeline for them. The latest in the list of the converted includes the RBI, who after rolling out two large banking licenses last year, has now granted in-principle licenses for payment banks to 11 players and small banks to 10 players, many of which embrace the start-up story, especially the latter set.

Exactly seven years back, with the raging financial crisis threatening to reach the sheltered shores of the Indian subcontinent, the trials and tribulations of the investment banks and foreign banks had caught the unwanted attention of all and sundry. While the Indian banking sector remained fairly insulated on the business front, from a talent and HR perspective the industry has seen tough times, and has struggled to regain the sheen that once tagged the dynamic sector's 'face-bookish' profile. It is perhaps a case of divine justice that the sector is now being driven back into the throes of action and activity fueled by the new crop of banks that hope to correct what ails the banking system today – inequality, penetration and sustainability. It seems to be an era where banks are bound by a conscience, and will now seek to enter segments, sections and stretches which have been far away from the reach of conventional banking, rather than fight it out for parochial profits in big cities and towns.

Banks and NBFCs are taking the threat offered by the 23 new invaders to their business fairly seriously, as the marketplace for money will now pit the nimble, disruptive young guns against the might and muscle of the behemoth bosses of traditional banking. There is widespread belief that just as the e-Commerce entrepreneurs wipe out the legacy of brick and mortar retail, the advent of technology-driven banks will soon transform the beliefs of banking, as mobile phones become branches, and applications replace your bankers. But how will this impact the cast and crew of this now action-packed industry? How will the newbies galvanize talent? What do they need from a human capital perspective as they start to launch operations in the next 18 months? Will it be a slow, steady seizure of the existing banking talent or will we see widespread disruption similar to the revolution we seem to be anticipating on the business front? That is what we decided to understand, and unravel in this article.

The Intent for Inclusion

The Ministry of Finance and the Reserve Bank had embarked on a journey a couple of decades back to provide banking facilities to the remotest parts of India. With the government and regulators both committed towards financial inclusion, this outlined the blueprint for how the remotest locations would be brought under the purview of the banking system. Presence of private banks was largely concentrated in cities and their branches could be found largely in the affluent areas or the commercial districts. However, over the years they realized the potential of tapping into the wealth of rural India which largely comprised agricultural income and thus started operating beyond the Tier 2 cities. Despite this, the reach was not good enough to cover the expanse of rural India and this led to the birth of alternate modes of banking. Inspite of efforts by the government to service the rural/remote locations through the PSU

It is perhaps a case of divine justice that the sector is now being driven back into the throes of action and activity fueled by the new crop of banks that hope to correct what ails the banking system today – inequality, penetration and sustainability

bank branches and their extension counters, they could not keep up with the ever growing rural expanse.

The Topicality of Technology

While the banking world was trying to figure out what was the successful formula for reaching out to the far-flung corners, technocrats seemed to have a solution. Based on technology platforms and telecommunication joining places with their small mobile towers, the financial inclusion module seemed a reality – hence, the emergence of payment banks. The license awardees are largely telecom companies, payment gateways or mobile wallet firms. The crux of their operation would lie in leveraging their existing distribution and technology set up to reach out to the unbanked – enabling deposit and withdrawal/transfer services without any physical presence. While traditional banks could also enable this but they have largely focused on branch-based service delivery model and platforms like NEFT and RTGS, which now would make way for IMPS and mobile cash kind of solutions. The key differentiator for the payment banks and their success mantra lies in the fact that they are not focused on multiple product lines like any conventional brick and mortar bank but largely leveraging technology to provide basic banking services of deposit, withdrawal and transfer to an individual who was never exposed to the banking system in the past.

While this took care of the basic banking needs of people in remote parts, the endeavor was to provide full banking service to the unbanked population. A large number of NBFCs and micro finance firms have been working with the rural poor helping them in their livelihood. RBI then opened the doors for accepting applications for a small lending bank. The idea behind this was that these firms were already working with the rural and unbanked sector and their models had inherent risk mitigation systems. With this they would facilitate the lending activity in the rural space which completes the picture of making a comprehensive banking spectrum available to them.

The Set Up Saga

Given this business is largely driven by people, it is paramount that there is a definite strategy aligned to the overall business objectives of the firm. The key to success here lies in designing the organization in a lean way and thus moving away from the conventional overtly layered structures found in large banks. Multi-hatting is the norm and specialization is only where necessary. With this mantra, these organizations are likely to see consolidations of many support functions which usually operate as COEs in large setups; leading to enhanced control and alignment to the overall direction. On the revenue front, the structure is expected to be largely two pronged – one responsible for the distribution and the second for tie-ups. With a limited product base, these banks are likely to see a central product vertical that would be responsible for both the regulatory aspect while ensuring marketability.

Treasury, usually typecast as one of the "glamorous" functions in a large conventional bank will be limited to playing a resourcing and money market management role in these new banks. Wholesale banking will also be missed as the target audience on a B2B front is likely to be micro to small enterprises. Payment banks however, would be tapping into the operational accounts of many internet-based service providers as they have the perfect marriage of the need and the solution. They will enable a different experience by bringing both the customer and service provider on the same platform.

Given the hiring in the small banks is likely to run in thousands, firms are likely to adopt highly efficient screening mechanisms to manage this large scale talent acquisition. Competency-based algorithms will be the favorites for selectors to get the "right" talent in.

Another Melee in the Making?

Banking talent, which is limited in our country, was again back in demand after the financial crisis especially for the control functions. The large established players started ring-fencing their key/critical talent by paying them fatter bonuses and higher annual hikes. Other sectors like telecom, pharma and IT also followed suit. The payment banks which are largely dependent on the technology platform have made some key hires from IT firms, banks and e-Commerce companies to shore up their shop. Cash management and compliance folks from banks have also been hired to fill the need of designing the product suite.

The scenario is slightly different for the small lending banks – they are largely focusing on hires in the retail, micro SME segments across both business and control roles. Their preferred talent catchment area is likely to be other banks or large established NBFCs to meet their talent requirements. Most of the new age banks are exploiting the entrepreneur in some employees while

others are being lured with the concept of wealth creation by means of ownership of the firm.

While this is likely to create some disruption in the banking, IT, telecom and e-Commerce space, but this may not dent much of the established talent management programs that each of the large and successful banks and NBFCs run. This is just the start-up phase and the true test is yet to come as these new banks could potentially pose a talent challenge to not just the banking system but also the larger ecosystem. Today, most of the established banks, NBFCs and conglomerates face severe challenges in hiring "ready" talent in the rural and semi-urban areas. With these new entities running in full steam, it is likely to stress the talent market even further and even see influx from other allied retail and distribution industries. This brings in the necessity of having a defined succession planning program for all key and critical position.

Capability building is another focus area for banks given the talent catchment is varied across multiple industries and geographies. To be able to run an efficient and homogenous organization, targeted development programs could come in handy for the new banks and they may choose to follow the "academy approach" like their "big brothers".

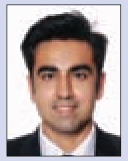
Another challenge staring at these new banks which they are likely to face in years to come is differentiation. The ability to differentiate performance and thus align rewards is critical to promoting an overall performance-based culture. Large banks have often being accused of being socialistic in their approach while managing pay and this has come back to haunt them in the long run. It's extremely important that these new banks adopt a state-of-the-art performance management system and follow it rigorously so that they don't fall prey to similar issues in the years to come as they plan to expand.

Let the Games Begin

Will Raghuram Rajan be able to do for the Indian masses what Muhammad Yunus achieved in neighboring Bangladesh? Too early to tell. But the seeds seem to have been sown for leveraging financial institutions to drive economic empowerment for the unbanked segments of the country. And this in turn, has certainly provided the shot in the arm that the banking sector was waiting for.

It is pretty evident that these new banks have their hands full on all fronts – especially on people-related matters given it is an essential element which can either make or break it for them. Lessons are easier said than learnt and while they have their bigger banking brothers and powerful pioneers to seek experience from, they will have to balance out the temptation of filling up a larger than life banking canvas that is no doubt coveted, and the realities of making the business model work in a punishing market. Money is always pivotal in a bank's DNA, both as a raw material and as a reward, and it will be critical to see how these new banks manage that sensitive subject. There are many dimensions of HR that will require focus right from the organization design and grading structure to the performance management system and payout mechanism; it is important to divide them into what is required upfront to hit the ground running and what will come in later; and what will eventually help them move from good to great. Passion and perseverance has got these chosen few the coveted license; patience and prudence will make them the preferred pioneers of economic change in the country, as they usher in a regime of sustained financial inclusion for the nation at large.

Capability building is another focus area for banks given the talent catchment is varied across multiple industries and geographies



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