

## Broad-Based Variable Pay Goes

# Global

By Ken Abosch, Jill Schermerhorn and Lori Wisper, Hewitt Associates

In the global rewards arena, there has been a widely held notion that broad-based variable pay plays a more prominent role in the United States than in many other locations around the world. Perhaps it's because Americans are often viewed as highly compensated, or maybe it's a result of the news media focusing its lens on aggressive compensation levels for senior executives of U.S.-based companies.

At the same time, there's a misconception that cultural, regulatory or union-related issues prevent extensive use of broad-based variable pay in other countries. In Europe, it's been suggested that unions and work councils serve as obstacles to implementing variable pay programs, while tax laws and unstable economies are said to create barriers in Latin America. Meanwhile, in Asia, a perceived dominance of team-oriented cultures is sometimes thought to stand in the way of more individually focused broad-based variable pay structures.

When reviewing pay trends, global companies tend to focus on these and other geographical differences. However, in reality, the research detailed in this article shows there are more

### QUICK LOOK

- ⇒ Variable pay spending in emerging and high-growth markets has come to match the levels in more mature markets.
- ⇒ From the employees' perspective, variable pay represents the greatest opportunity to increase overall compensation.
- ⇒ Over the last three years, the portion of management and professional employees receiving variable pay has increased from 79 percent to 85 percent (globally, on average).



similarities than ever before. In terms of prevalence, eligibility and level of spend, the world is truly getting flatter when it comes to broad-based variable pay.

### A Global Phenomenon

While it's true that variable pay has been around longer in the United States — particularly in terms of individual awards at the management and professional levels — any suggestion

that it is primarily a U.S. phenomenon is blatantly false. Variable pay has become an integral part of the compensation landscape for management- and professional-level employees in every region. Across the globe, approximately 86 percent of companies offer at least one type of broad-based variable pay program, with 91 percent doing so in Asia-Pacific, 90 percent in the United States, 85 percent in Europe, 81 percent

in Latin America and 80 percent in Canada. As shown in Figure 1, these results are remarkably similar from one country to another.

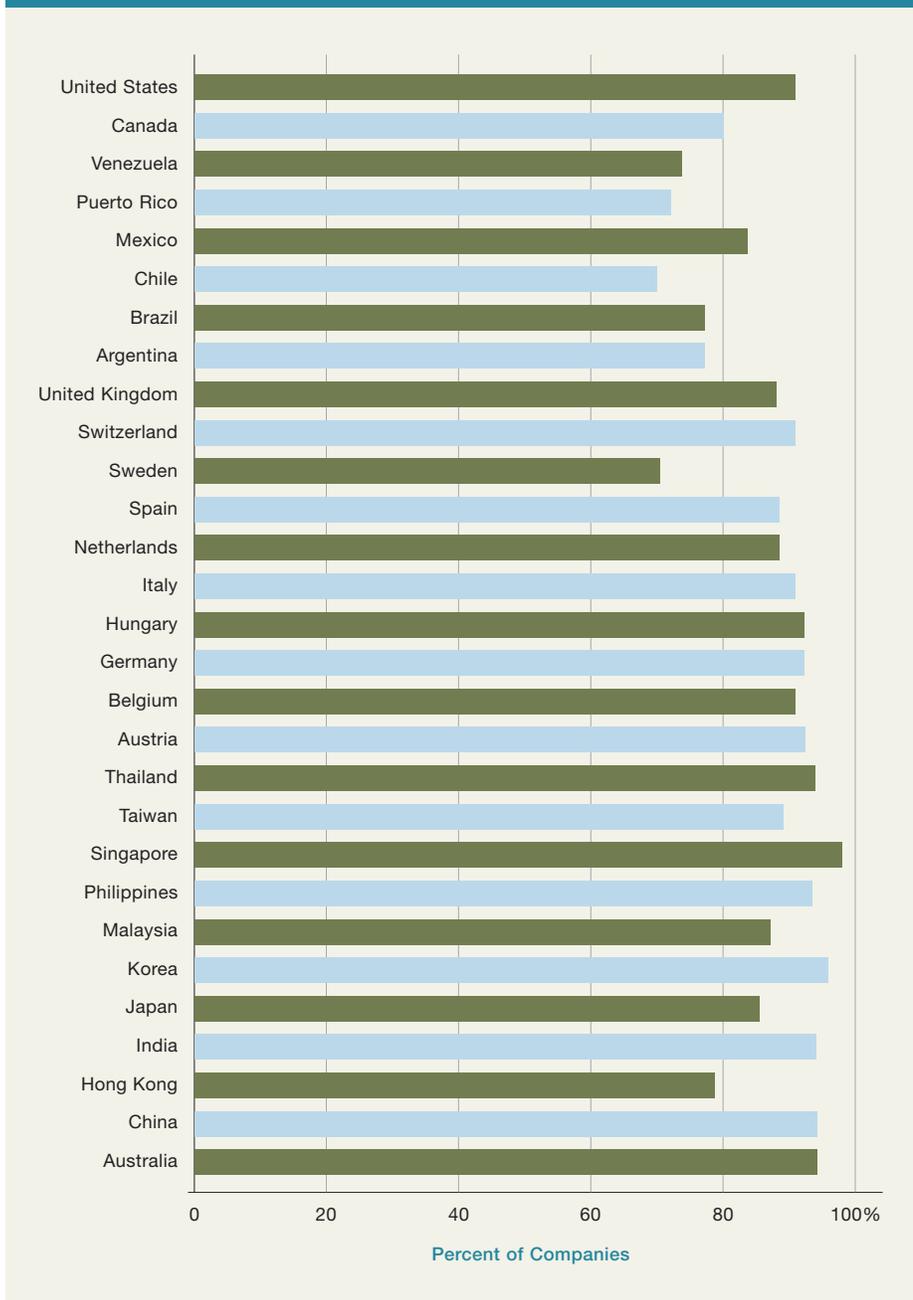
Not only has variable pay usage become more consistent around the world, company spending on broad-based variable pay programs has also converged. Regardless of economic conditions, political challenges or their level of market development, variable pay spending in emerging and high-growth markets has come to match the levels in more mature markets, essentially showing this practice to be more globally similar than previously thought.

From 2003 to 2008, spending for broad-based variable pay programs for management and professional roles rose from 11.1 percent to 18.5 percent of total payroll in Latin America, and in the United States, spending grew from 8.8 percent to 11.6 percent. Higher variable pay budgets in Latin America are likely the result of often mandatory profit-sharing programs, whereas higher budgets in the United States have been driven by the need to find alternative approaches to pay for performance. European spending experienced smaller gains — inching up from 10.8 percent to 11.3 percent — while in Asia Pacific, overall variable pay spending actually decreased slightly from 13.5 percent to 12.3 percent. However, Hewitt research shows that there were significant increases in spending in high-growth markets such as China — a reflection of the need for creative compensation strategies in areas where key talent is in high demand.

At the same time, base salary increases, which tend to be driven by local labor market considerations, remain relatively flat around the world. (See Figure 2.)

Naturally, there are exceptions, like Argentina, Poland and India, where budgets have increased more drastically due

FIGURE 1: OVERALL PREVALENCE OF BROAD-BASED VARIABLE PAY PROGRAMS



Source: Hewitt Associates 2007-2008 Salary Increase Surveys.

to economic growth, crisis and/or competition for key talent. In many countries, however, it's fair to say that base salary increases have not varied significantly from the rate of inflation.

This leaves employees in many countries wondering how they can possibly achieve any kind of growth in terms of their compensation. In all likelihood, it's going to come less from base salary increases and more from variable pay. From the employees' perspective, variable pay represents the greatest opportunity to increase overall compensation. Not only does it have the potential to put more cash in their pockets, but it will do so in a manner that moves them further beyond the inflation rate than a standard raise. In addition, with a well-designed program that offers solid line-of-sight to bonus measures, employees say they feel a stronger sense of control over their variable bonus payouts than they do over their base salary increases.

For employers, broad-based variable pay is a critical tool to drive business results. Such programs provide unique

... employers across the globe are increasingly turning to broad-based variable pay programs as a means of rewarding employees and differentiating performance.

opportunities to recognize, create energy around and pay for performance while protecting the company from having to shell out extra cash if the results aren't there. Consequently, in a global HR environment in which ROI is a growing focus, employers across the globe are increasingly turning to broad-based variable pay programs as a means of rewarding employees and differentiating performance.

More Similarities in Plan Design

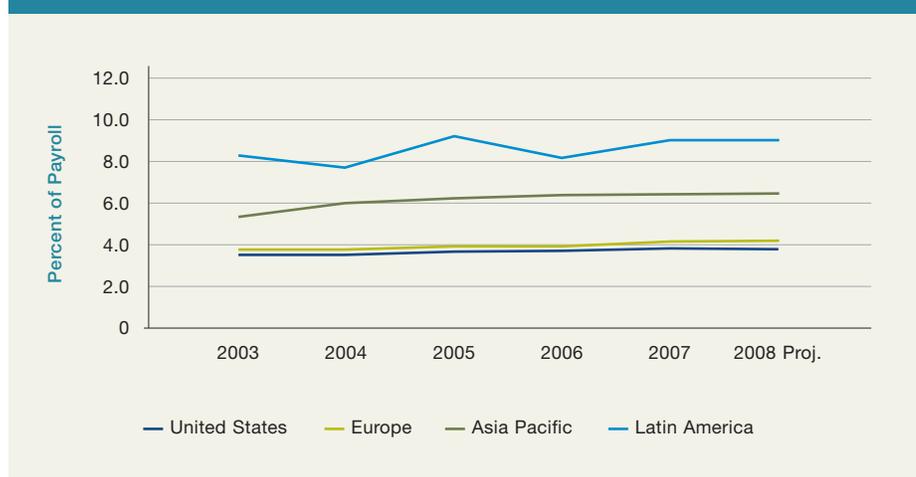
As with prevalence and spending, there are remarkable similarities around the world when it comes to target bonuses and eligibility. Expressed as a percentage of base salary, target bonuses for management and professional-level employees have become quite similar globally over the last three years, dispelling the notion that

U.S. programs have more pay at risk. While the average 2007 management and professional target award in the United States was 18 percent, Europe was only slightly less at 15 percent, and Asia and Latin America were slightly higher at 19 percent. This is a higher degree of synergy than has been seen in the past.

Along with the similarity in target bonus levels, there's also been a convergence in variable pay plan eligibility — both for management and professional as well as general staff. Over the last three years, the portion of management and professional employees receiving variable pay has increased from 79 percent to 85 percent (globally, on average) throughout Europe, the United States, Asia Pacific and Latin America. Currently, eligibility levels in all regions are amazingly comparable to one another. (See Figure 3.)

This similarity across regions also extends to general staff roles. Historically, there have been lower levels of eligibility when it comes to jobs at this level, as variable pay has sometimes been viewed primarily as a management perk. This appears to no longer be the case — at least not to the extent that it once was. On average, eligibility for general staff positions increased from

FIGURE 2: OVERALL SALARY INCREASES — MANAGEMENT & PROFESSIONAL ROLES



Source: Hewitt Associates Salary Increase Surveys 2003-2004; 2004-2005; 2005-2006; 2006-2007; and 2007-2008.

69 percent to 75 percent globally over the past three years. With the exception of Europe, where general staff eligibility is not as prevalent, this is fast approaching eligibility levels for management and professional ranks. In Latin America, statutory requirements appear to have influenced eligibility, as general staff and management/professional are nearly tied. (See Figure 4.)

### Some Differences in Plan Types

Even with all the similarities seen globally, there are some differences in the types of broad-based variable pay programs utilized across countries. Three years ago, the majority of countries favored special recognition awards: small cash awards or non-cash incentives, such as employee-of-the-month designations, dinners with the CEO or prized parking spots. The easiest form of variable pay to put in place, such awards cost the company very little and

can be spontaneously granted to coincide with the desirable performance. However, as organizations around the globe have shifted their focus to individual performance differentiation, there's been a rise in the popularity of individual performance awards, which now constitute the most prevalent form

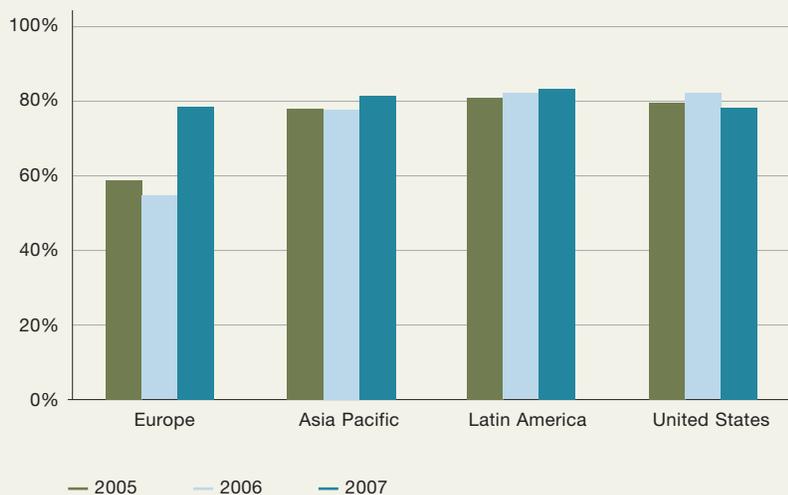
The United States, Hong Kong, Puerto Rico, Belgium and Canada, as well as a number of countries in Europe, use business incentive awards more than any other form of broad-based variable pay.

of broad-based variable pay programs in China and India, as well as several other Asian and European countries. As broad-based variable pay has become more prevalent in these locations, such countries gravitate toward individual performance awards because they are easier to design and implement, and they require a less complicated infrastructure than other types of plans (e.g., business incentive awards).

Countries that have been working with variable pay for a longer period of time are further up the learning curve and have more historical data with which to set good metrics. As a whole, they tend to exhibit greater usage of business incentive awards, a more all-encompassing qualitative and quantitative means of measuring and rewarding performance, using some combination of company, business-unit or individual-level measures. The United States, Hong Kong, Puerto Rico, Belgium and Canada, as well as a number of countries in Europe, use business incentive awards more than any other form of broad-based variable pay. As organizations become more sophisticated in measuring and tracking performance, there likely will be a higher prevalence of business incentive awards in the future.

Cash profit-sharing, a one-size-fits-all kind of program in which awards are dependent on overall company performance rather than individual or business-unit results, was found to be utilized in Latin America more so than any other region. This is a reflection of Latin America's statutory requirements. As might be expected, widespread use of team awards is only reported in a few Asian countries. However, it's important to

FIGURE 3: VARIABLE PAY ELIGIBILITY — MANAGEMENT & PROFESSIONAL



Source: Hewitt Associates Total Compensation Measurement 2005-2007.

note that, even in these countries, individual performance awards, business incentive awards and special recognition awards are more prevalent. This is an indication that strong competition for top talent is changing some of the traditional pay practices.

### Global Implications

Clearly, geographical differences have blurred with regard to broad-based variable pay plans and practices. In terms of eligibility, target levels and spending, regional practices are surprisingly similar, leading to the conclusion that overall broad-based pay programs are more globally consistent than ever before.

Organizations that have been operating under the assumption that they don't need to move toward a global broad-based variable pay approach should rethink their strategy. By not offering such plans globally, they

In terms of eligibility,  
target levels and spending,  
regional practices are surprisingly similar,  
leading to the conclusion that overall  
broad-based pay programs are  
more globally consistent  
than ever before.

are putting themselves at a major disadvantage — both in terms of attracting and retaining top talent, and in driving individual and business performance.

Broad-based variable pay has the ability to serve as a global driver of behavior, marshaling the collective

strength of the global workforce and unifying divergent geographies that may otherwise have very different pay practices. It also has the power to further enhance a global focus on business results. Simply put, organizations would be well-advised to include broad-based variable pay as part of a globally coordinated rewards program. Broad-based variable pay has definitely gone global. WS

### ABOUT THE AUTHORS

**Ken Abosch is the North American, broad-based compensation consulting practice leader at Hewitt Associates and is based in Lincolnshire, Ill. He can be reached at [ken.abosch@hewitt.com](mailto:ken.abosch@hewitt.com) or 847/295-5000.**

**Jill Schermerhorn is a senior global rewards consultant at Hewitt Associates and is based in Lincolnshire, Ill. She can be reached at [jill.schermerhorn@hewitt.com](mailto:jill.schermerhorn@hewitt.com) or 847/295-5000.**

**Lori Wisper is a senior compensation consultant at Hewitt Associates and is based in Lincolnshire, Ill. She can be reached at [lori.wisper@hewitt.com](mailto:lori.wisper@hewitt.com) or 847/295-5000.**

### RESOURCES PLUS

For more information related to this article:

[www.worldatwork.org](http://www.worldatwork.org)

Type in any or all of the following keywords or phrases on the search line:

- Variable pay

[www.worldatwork.org/bookstore](http://www.worldatwork.org/bookstore)

- *The Best of Variable Pay: Incentives, Recognition and Rewards*
- *Cash Bonuses: Four Ways to Attract, Retain and Motivate Employees Second Edition.*

[www.worldatwork.org/education](http://www.worldatwork.org/education)

- C12: Variable Pay — Incentives, Recognition and Bonuses
- C15: Global Compensation — Strategy in Practice
- T9: International Remuneration — An Overview of Global Rewards.

FIGURE 4: 2007 BROAD-BASED VARIABLE PAY ELIGIBILITY BY JOB LEVEL AND REGION



Source: Hewitt Associates Total Compensation Measurement 2007.