Boosting India's Growth: Role of Salary Hikes in 2015

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Abstract:

One has always heard arguments against the so-called "average salary increase" number because the average can be a fairly distorting statistic. A better way to look at influencers of pay increases would be to look at the micro picture. Arguably, the industry or sector performance is a closer indicator of salary increases in that sector, but we would go a step further to say, that even within that, we have seen paradoxes depending on individual entities. The financial health, the stage of evolution, and the business strategy of each entity could explain the variance and India's growth. Many a time, organizations have overly relied on benchmarks, while forgetting to contextualize rewards to fit their own situation. The micro factors have a significantly higher influence on salary increases, and therefore salary increases should always be looked at in context. Viewed outside of context, increases may seem too prudent or too extravagant, and can often lead to misleading debates and inferences. The highest salary growth predicted in Asia is not surprising, given the war for talent in the region. This paper studies the companies are more focused than ever before on flexibility willing to customize their strategies, even in link with rewards and their efforts to retain talent.

Keywords: Benchmarks, Financial health, Micro factors, Paradox, Salary growth

Introduction

"A developed India by 2020 or even earlier, is not a dream. It need not be a mere vision in the minds of many Indians. It is a mission we can all take up - and succeed." Dr. APJ Abdul Kalam, a visionary and former President of India said in his book India 2020: A Vision for the New Millennium (published 1998). In the 300 pages of this book, he examined the weakness and the strength of India in-depth and offered a vision of how India can emerge amongst the world's first four economic powers by 2020. This book, inspired by the dream of a young schoolgirl to live in a "Developed India", started many discussions that instigated a hope for India being a superpower by 2020. However, with the massive economic slowdown in the recent past that engulfed the global economy, there were clouds of doubt in everyone's mind. However, it seems that these dark times are over and it's time for a "New Dawn" in India. Thanks to the changing political and economical scenario, there is a high tide of hope for change and development that makes this dream of "Developed India" more achievable than ever.

Be that as it may, what has brought this change? Is it simply the new Government in force that has brought about this energy? Yes and No. Yes - on the grounds that with the adjustment in Government, the tremendously required bearing and activities have begun from the Top and has raised new trusts and goals. NO in light of the fact that you require more than "bearing" to bring out such a change. The mystery element of this change is – We, the People of India. The potential this youthful country with 800 million individuals in the working age holds, that is bringing about an India - overflowing with hopefulness and certainty. On the other hand, on the off chance that we consider it - it is this hopeful and certain "youthful" workforce, under the solid direction and course of the new government that has brought about this changed picture.

Loads of changes have occurred in India in the most recent year, be it economy, governmental issues or even organization. Without precedent for a long time, there is an outright lion's share government at the middle. Money markets are scaling new heights with consistency and the rupee has hinted at strength. The speculator disposition is by all accounts lifting and business development has got. While an adjustment in business assessment and speculator mind-set was just expected after the new Government was confirmed, the introductory measures taken by the administration appear to have in reality made the discernment that working together in India is presently less demanding and the nation has got the consideration of financial specialists. There has been recently discovered adaptability in the organization that guarantees evacuation of bottlenecks which have been in charge of slowing down the greatly required development for the past numerous years. From assessment approach, land securing issues, environment endorsements and assembling to work laws, the administration is gradually putting set up building squares to guarantee India recall the certainty of speculators and corporate, while uprooting a percentage of the obstacles. There is by all accounts a true begin of the movement from "Government" to "Governance".

Campaigns like "Make in India" that go for transforming the nation into a worldwide assembling center point and build the per capita wage by making occupations for more than 10 million individuals are such activities. These sorts of steps are what will support the move of Indian economy from an administration driven development model to a work escalated assembling driven development, which is a great deal more economical. By concentrating on fare situated assembling, overwhelming foundation building and urbanization in parallel, the Government means to imitate China and the East Asian monetary model, making ready for managed quick financial development.

India has turned into an appealing destination for venture attributable to great government arrangements and changes in the previous couple of months. The endorsement of foreign direct investment (FDI) in a few parts has permitted ventures to fill the economy. With India anticipated that would "turn the corner" on the back of basic changes, economy is anticipated to clock around 7 percent development in 2015 – even as China is expected to see an economic slowdown.

Pay Hikes in India – 2015

It is anticipated that 2015 could be the year of India by posting development of around 7 percent. In short-term, low oil costs are liable to build GDP development, facilitate the weights of India's present record deficiency and cut down inflation. Financial plan 2015 is relied upon to make stride towards executing new auxiliary changes, which are required to help the economy.

With respect to wholesale value inflation in India, it is required to normal at around 5 percent for FY 2015. This will be the most reduced level of expansion found in the most recent couple of decades. Fall in Inflation this year is relied upon to be the steepest.

In general, the present pay expand figures demonstrate that while the business suppositions is at record-breaking high, organizations anticipate the assumptions to transform into reality – genuine business results.

Representatives distinguished as top entertainers are prone to get a normal raise of around 16.50 percent, while workers at the great execution level in the association - are relied upon to get normal addition of around 13 percent.

This is an unmistakable sign of a positive monetary assessment. All businesses overviewed are relied upon to witness an increment in ' increment rate' in FY 2015 with couple of special cases wherein the organizations have indicated insignificant decrease in the augmentation rates contrasted with the earlier year.

India Ranks 4th in the World At 10.3%

The Indian workforce is expected to get an average salary hike of 10.3 per cent, which places it among the top five counties in the world. The other countries are Venezuela, Argentina, Ukraine and Egypt.

However, if the rate of inflation is taken into consideration, the effective rate of salary increase for India will be 4.7per cent.

Similarly, the average salary increase in Latin America will be 11.4 per cent; the effective real salary will be reduced by 1.4 per cent due to high inflation rate of 12.8 per cent in the region. For instance, in Argentina, the projected average salary hike will be 31 per cent but the effective real salary increase will be only 3.6 per cent. In Venezuela, the average salary increase will be 70 per cent but real wage growth will be in negative due to a high inflation rate. However, the average effective real salaries are expected to go down by 52.6 per cent, the lowest in the world.

Figure: 1

Among the BRICS countries, in Brazil, the effective real wage changes will be in negative with a pay cut of 1.2 per cent though salaries are expected to go up by 7.7 per cent. A similar situation can be seen in Russia, where despite an average salary increase of 7 per cent, with inflation at 14.5 per cent, real wages are set to fall by 7.5 per cent. The de-growth in Russia is due to the impact of economic sanctions and falling oil prices, which hit the economy.

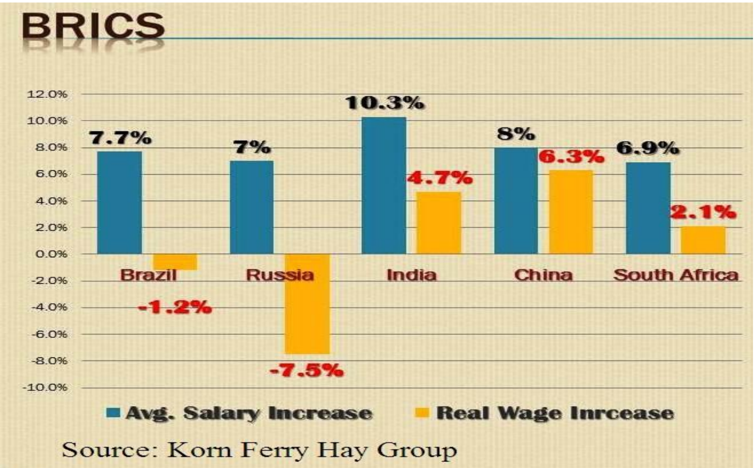

Figure: 2

The high inflation rate will result in an effective salary cut for employees in Ukraine and Egypt as well.

In Asia, India is positioned at the top, ahead of Indonesia, Vietnam and China, in terms of average salary increase. However, Vietnam tops the list of real salary growth, with 7.3 per cent increase followed by China and Thailand at 6.3 per cent and 6.1 per cent, respectively. The highest salary growth predicted in Asia is not surprising, given the war for talent in the region.

“Companies are more focused than ever before on flexibility. They are willing to customize their strategies, even in link with rewards. The effort to retain talent can be directly linked to this,” says Amer Haleem, business manager, productized services, Hay Group India.

However, India’s salary growth rate is still double of what was observed in the last two years. In 2015, the real salary increase for India was 2.1 per cent and in 2014, it was only 0.2 per cent.

The Korn Ferry Hay Group released this forecast after evaluating the pay database of 20 million people in around 25,000 organizations, across 75 countries. However, the predictions for average real wages increase are based on 73 countries in Hay Group’s database, excluding Ukraine and Venezuela, where political turmoil and high inflation have led to real wage decreases of 36.8 per cent and 52.6 per cent.

Figure: 3

With a 4.2 per cent average increase in real wages, the rate of growth is highest in the Asian countries, vis-à-vis, and rest of the world.

However, the average real salary increase globally will be around 2.5 per cent – the highest in three years and as pay increases combine with historically low inflation, it is expected to leave employees across the globe better off.

Despite China’s economic slowdown, coupled with plummeting stock markets and reduced exports, workers in the country are set to see an eight per cent salary increase in 2016, as employment rates continue to grow due to the increasing demand for skilled workers and the sustained rise of the burgeoning middle class.

In the Middle East and Africa, despite plunging oil prices and economic and political chaos throughout the region, salaries in the region are predicted to rise by 5.3 per cent and 6.5 per cent, respectively. As inflation is low in this region, employees are set to see real wage increases of 3.8 per cent and 1.6 per cent, respectively.

The only country, which expected to see a negative growth in terms of real salary, is Egypt, where employees could see a cut in real wages by 0.4 per cent.

Lebanon and Jordan are expected to experience a real salary growth of 11.5 per cent and 5.3 per cent, respectively. UAE is set to see the slowest real wage growth of 0.9 per cent — which is far lower than the figure of 2.8 per cent in 2015. Syria, Iraq and Iran have not been part of this survey.

For 2016, the expected average raise is 10.3%, marginally less than that in 2015, 10.5%. After taking into account inflation rates, Indian employees are likely to earn a real wage increase of 4.7% compared with 2.1% in 2015 and only 0.2% in 2014, according to a report released by Korn Ferry Hay.

In India, the average retail inflation as measured by Consumer Price Index (CPI) was an average 7.1% in calendar year 2014 and 4.8% in 2015 (January-October), according to the Central Statistics Office. The Korn Ferry Hay report forecasts that inflation will be around 5.6% in 2016. The Reserve Bank of India has set a target to lower inflation to 6% by January 2016 and 5% by March 2017.

Globally too, the average real salary increase is expected to be 2.5%, also the highest in three years, as pay increases combine with historically low inflation to leave employees better off.

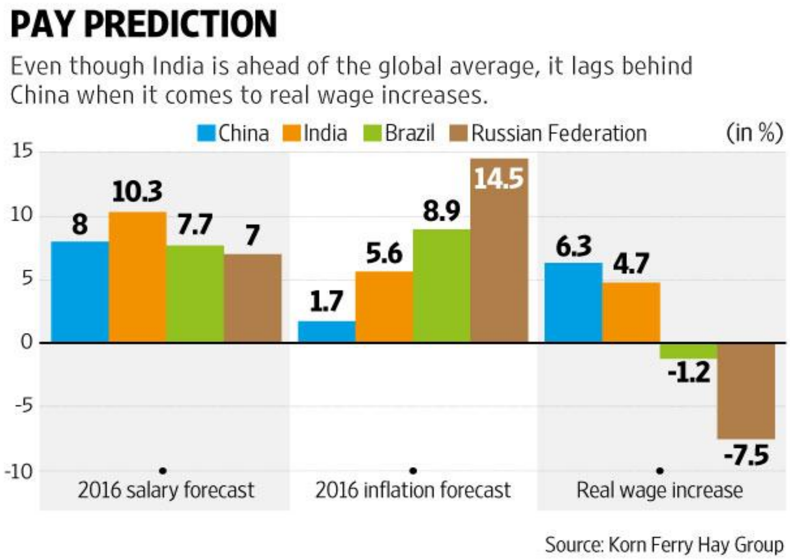

Figure: 4

Even though India is ahead of the global average, it lags behind China when it comes to real wage increases. At 8%, China's salary forecast is lower than India's, but after accounting for inflation, the Chinese can expect a real wage hike of 6.3% for 2016.

This suggested that the 10.3% average expected raise in India is significant.

"In emerging economies, up-skilling workers is crucial for companies to maintain competitive advantage and those skilled employees can expect to see wages rise as talent shortages in certain regions drives salaries up," said Philip Spriet, global managing director for "productized services" at Hay Group.

Inferences from Omam Consultants

Omam Consultants have been working on the increment trends across industry verticals, which is summarized and presented in a grid.

According to the study results, the leading industries in the market are Banking/ Financial Services and FMCG with an average proposed salary increase of 12.5 percent in 2015. The projected increase in FMCG is marginally higher when compared to previous year (12 percent in FY 2014), while it is marginally lower in case of Banking & Financial Services when compared to the previous year (13 percent). This is followed by Chemical industry with projected increase of 11.5 percent, up by 1.5 percent when compared to the FY 2014.

The lowest increments are expected in the Core & Real Estate/ Infrastructure sectors where the average projected increment is 9.5 percent.

The Manufacturing & Durable sector shows a modest increase of 10 percent and 11 percent respective for 2015, which is same as the previous year. The companies in Chemical and Real Estate/ Infrastructure show maximum increase of 1.5 percent.

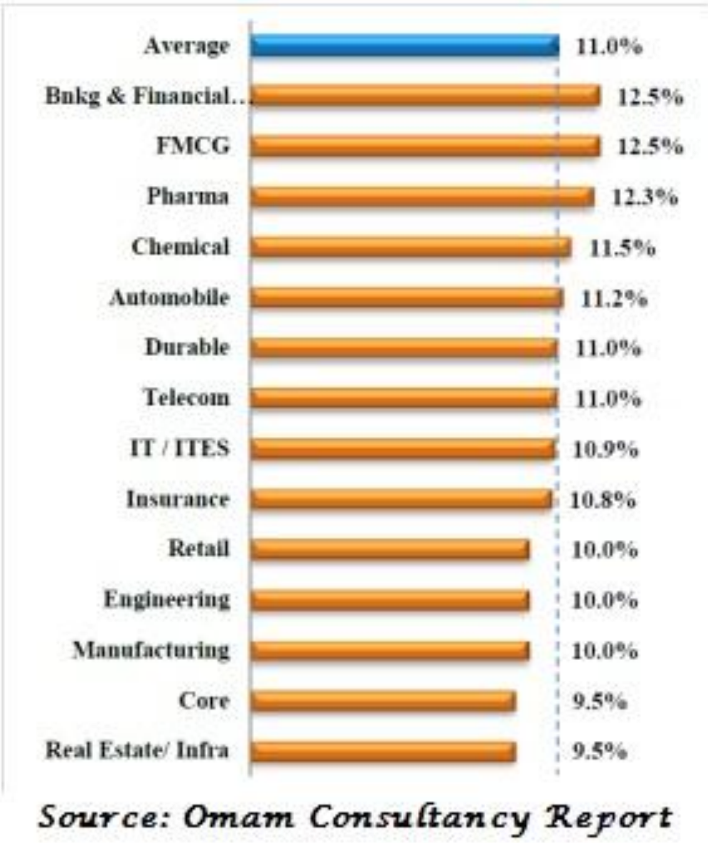

Figure: 5

When compared to the previous year while Retail sector projected increase shows maximum decline (2 percent) vis-a-vis previous years (12 percent to 10 percent).

Companies in Insurance industry shows a marginal decline of 0.2 percent in 2015 compared to the previous year increase of 11 percent. The companies in Telecom sector are expected to see the rise of 11 percent, up from 10% in the year 2014.

Table: 1

Sector	Actual Salary Increase – 2014 %	Actual Salary Increase – 2015 %	Projected Salary Increase – 2016 %	Year on Year Increase %
Energy	10.5	11.00	11.5	0.5
Pharmaceutical and Health Sciences	10.5	10.40	10.9	0.5
Hi Tech	9.0	10.00	10.7	0.7
Financial Services	9.0	10.00	10.4	0.4

Source: TOWERS WATSON Salary Increase Survey

Average salaries across India increased by 10.8% in 2015 as per the latest 2015-16 Asia Pacific Salary Budget Planning report. "The overall salary increase in 2014 was 10.5% with inflation at 7.2%, indicating a real increase of 3.3%. Therefore, an effective jump from 3.3% to 5% this year will bring much cheer to Indian employees. While it's too early to predict increases for 2016, the general sense is that companies will budget in the same range as 2015, perhaps the net increase will be a tad lower given the moderating inflation levels," Rakyan added.

Top Performers Get Higher Salary Increases

It is found that across all industries in India; almost 87% of employers plan to allocate a larger portion of their budget to high performers. The High Tech industry stands out with 11% companies planning to allocate the entire budget increase to high performers.

Predictably, in countries where overall salary increases tend to be higher, good performance is also better rewarded. In India, salary increase for the 'highest-performing' employees' average 12%, which is 30% higher than 'average' performers and nearly twice the regional average.

Variable Compensation

Deep diving into aspects pertaining to variable compensation, that 'pay for performance' or 'pay at risk' is much lower in India as compared to some other markets.

In India, 1.69 months average base salary has been handed as bonus/variable compensation to employees, lower than 1.93 months in China and 1.81 months in Hong Kong, Indonesia, Singapore and Malaysia. This denotes the importance of base pay in India where cash is still king.

Variable Compensation and Employee Level

Further, the variable compensation for Executive Directors and Senior Management in India in 2015 will be at 30% and 20% of base pay respectively. This is in line with previous years and continues to be higher than individuals in operations and middle management roles, where it ranges from 10% to 15%.

It comes as no surprise that people in India still like more guaranteed base pay. This is especially true for individuals at entry to mid-level where hard cash is what they seek. We do foresee a trend where a larger portion of the total compensation, as compared to current levels, would be paid as variable pay, thereby rewarding employee performance and contribution towards improved company productivity and profitability.

Conclusion

The sixth Pay Commission partly offset the after-effects of the 2008 Lehman crisis on India because of the 35% increase recommended. Attrition levels also have come down from the peaks seen in 2010 – 2012 period and remain at a moderately similar level as last year. The implementation of the hike boosts the economic activity in the country by increasing consumption. Due to this co-relation between Pay Commissions and economic growth economic activity itself which is gaining pace and, together with greater employment generation and policy reform, the 7th Pay Commission salary hike may help India enter a larger virtuous cycle.

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