Future of Pay

March 2023

Building a better working world

Foreword

"As the workplace of the future emerges amidst global economic and geo-political shifts, India continues to remain optimistic through strong fundamental metrics. With strong domestic demand, a burgeoning new age digital economy and a significant upsurge in GCC setups, India Inc. seems to be sending the right signals out into the Global business theatre. Talent demand in the country continues to outstrip employable supply with attrition in double digits as a steady trend over the past year. As per the World Economic Forum, of the 13 million people who join India's workforce each year, only one in four management professionals, one in five engineers, and one in 10 graduates are employable. Such bottlenecks have a far reaching impact on Cost of talent not to mention a need for rapid upskilling/reskilling of India's workforce to remain relevant in the next few years.

While talent asymmetry does impact Total Rewards trends, upswing in pay hikes has also been a great barometer of business growth and all round economic prosperity and current projections seem to be pointing in the right direction. With the Indian Government pushing for healthy tax reforms and demand/investment drivers for the economy, it doesn't come as a surprise that Indian Inc is projecting healthy compensation hikes in the next fiscal.

We at EY, People Advisory Services have been monitoring the Total Rewards space in light of India's economic reality for some time and feel there's more to just cash increments that can be expected in the future. With rising people costs organizations are focusing on building comprehensive Rewards Value Propositions (RVP) to augment EVPs in order to attract and retain talent in a deeply competitive talent market. Our market scan shows some interesting practices emerge in this aspect and we believe this is the beginning of a Total Rewards transformation journey for this country.

With that we are extremely proud to launch our "Future of Pay" Report for India outlining not just cash but Total Rewards trends emerging in the country. I want to thank all our industry participants across sectors and our EY colleagues who came together to make this happen. I look forward to sharing and discussing these trends with Industry experts and clients in the coming weeks and months."

Anurag Mailk
Partner, National Leader - Workforce Advisory Services,
Ernst & Young LLP, India

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Economic outlook

Global economic trends

Year 2022 was volatile for the global economy due to political tensions, recessionary indicators and growing inflation. Organizations are prepared for continued volatility in the years to come as the global economy faces an uncertain outlook in the immediate future.

Global growth is expected to fall from 5.9% in 2021 to 3.1% in 2022 and further to 2.2% in 2023. Except for the global financial crisis and the most severe phase of the COVID-19 pandemic, this is the weakest growth profile since 2001.

Some of the major factors that will influence business are:

1. **Rising inflation:** Global inflation is expected to rise from 4.7% in 2021 to 8.8% in 2022, but it is expected to ease down to 6.5% in 2023 and 4.1% in 2024. Despite slowing activity, global inflation has been revised up, in part due to rising food and energy prices.
2. **Increased digitalization:** The pandemic has accelerated the shift toward digital technologies and online commerce, with transactions increasingly taking place online. This trend is likely to continue.
3. **Growth of emerging economies:** Many emerging economies have continued to experience robust economic growth in recent years. This growth is expected to continue, with these economies becoming an increasingly important part of the global economy.
4. **Globalization and trade:** Global trade and globalization have been key drivers of economic growth in recent decades. However, there have been concerns about the negative impacts of globalization, such as job losses and widening income inequality.
5. **Climate change and sustainability:** Climate change and sustainability are becoming increasingly important considerations for businesses and governments, as the world moves towards a low-carbon economy.

While the world was going through a slow growth period in 2022, strong economic growth in the first quarter of FY 2022-23 helped India become the fifth-largest economy in the world ahead of the UK.

Indian economic trends

According to IBEF, India's GDP growth has been among the highest in the world, averaging 6% to 7% per year. The economy has been showing positive trends in recent years. Some of the key developments in India's economy include:

1. **Growth:** Growth in India is projected to decline from 6.8% in 2022 (FY23) to 6.1% in 2023 (FY24) before picking up to 6.8% in 2024 (FY25). Thus, even amidst signs of global recession, the growth story in India remains intact.
2. **Manufacturing:** The manufacturing sector has been growing rapidly, driven by improvements in technology and infrastructure, as well as favorable government policies which aim to increase the share of manufacturing in GDP to 25% by 2025.
3. **Services sector:** The services sector, which includes the information technology industry, has been a major contributor to India's economic growth. The IT industry accounted for 7.4% of India's GDP in FY22, which is expected to increase to 10% by 2025.
4. **FDI:** India has been attracting a significant amount of foreign direct investment (FDI) in the last two to three years. Currently, the cumulative FDI equity inflow stands at US$604.99b (April 2000-June 2022)
5. **Inflation:** Inflation has been a concern in recent years, but the government has taken steps to control it, such as reducing food subsidies and implementing monetary policies to reduce demand-side pressures

Despite these positive trends, India still faces several challenges, such as poverty, unemployment, and low agricultural productivity. The government is working to address these issues through a combination of policy reforms and investments in infrastructure and human capital.

Source: EY Economy Watch January 2023, EY Economy Watch February 2023

Projections

India's GDP will be

US$26t

in market exchange rate terms by 2047-48

India's per capita income would exceed

US$15,000

by 2047-48, putting it among the ranks of developed economies

Source: EY report India@100

Sector outlook - India

Despite the challenges of rising inflation, a depreciating currency, and slowing growth in key sectors like agriculture, the Indian economy has been growing at a robust pace in recent years owing to the contribution of sectors like manufacturing, services, etc.

Sectors expected to grow in 2023:

- Consistent economic growth and the state's increased infrastructure spending will support long-term demand growth in the cement and steel industries
- According to IBEF, India's **domestic pharmaceutical** market, which is expected to show steady growth, stood at US$42b in 2021. It is likely to reach US$65b by 2024 and further expand to reach US$120 to US$130 billion by 2030.
- The **auto components industry** accounted for 2.3% of India's GDP and provided direct employment to 1.5 million people. By 2026, the automobile component sector will contribute 5% to 7% of India's GDP.
- **Manufacturing, renewable energy, technology** and **infrastructure** are among the few other sectors expected to generate high growth

Sectors expected to have slower growth in 2023:

- Weaker overseas demand may result in slow revenue growth in the **IT enabled services** and **chemicals sectors**. The Indian IT services industry's growth momentum is likely to slow down due to lower discretionary IT spending.

New age digital enterprises:

- **The Indian startup ecosystem** is going through a funding winter, which is expected to continue in 2023. This has made new age digital enterprises (startups) follow a more conservative approach and focus on approaching profitability faster while pushing unit economics, revenue and growth.
- Startups will now have access to an experienced bunch of employees due to layoffs at large corporations. Specific industries such as **quick service restaurants (QSR), e-commerce and electric vehicle manufacturing** are expected to grow in India.

Source: India Brand Equity Foundation (IBEF)

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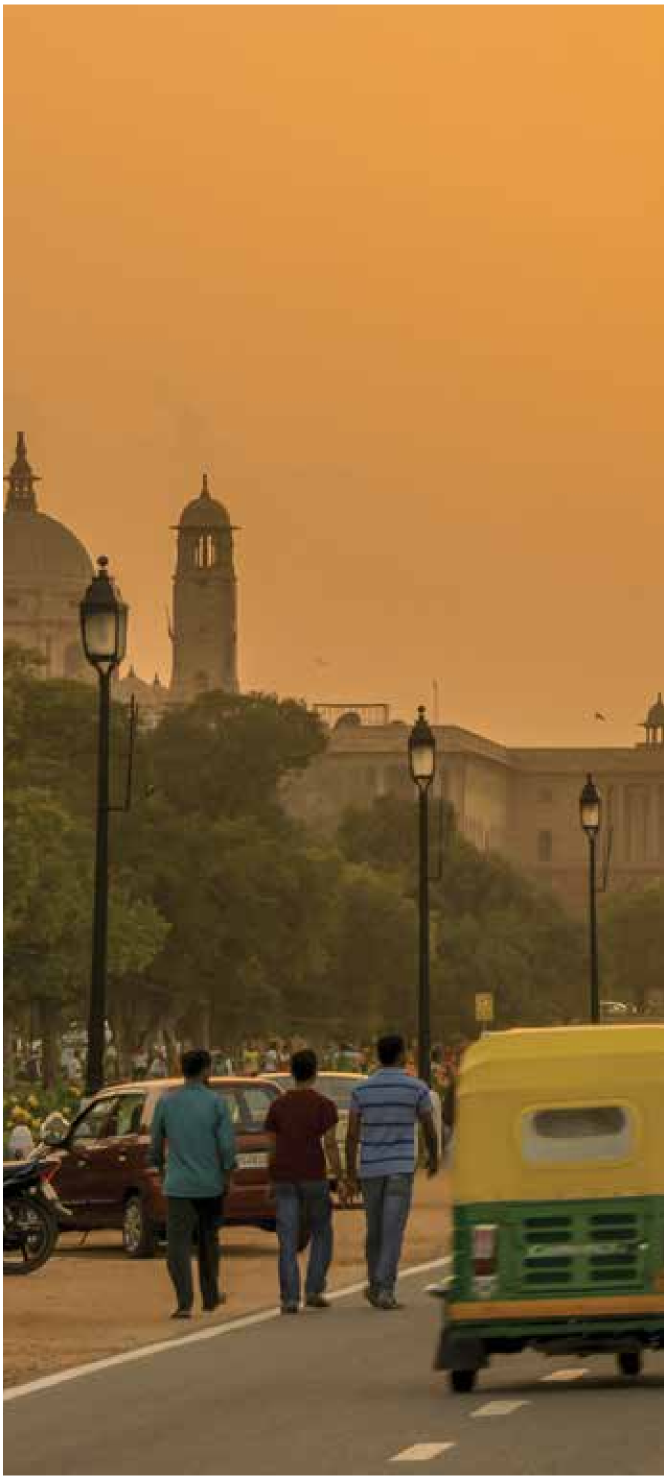
Talent trends in India

Talent trends

The current talent market in India is dynamic and evolving rapidly, shaped by a combination of global economic trends, technological advancements, and changing workforce expectations. Some of the current talent trends in India are:

- **Growing talent pool:** India has a large and growing talent pool and have one of world's largest working-age population. Undergraduates in engineering and technology earned the highest employability rating in 2022, i.e., around 55%. Graduates with a computer application degree, on the other hand, had an employability rate of roughly 29%
- **Skilled talent shortage:** There is a high demand for skilled workforce in India, particularly in sectors such as technology, healthcare, and manufacturing. This has led to a shortage of skilled talent in certain industries, which is driving up salaries and creating more opportunities for job seekers. Several sectors, such as electronics manufacturing, life sciences, healthcare, and technology, may continue to see a mismatch between the demand and supply of skilled labor over the next few years.
- **Increasing competition for top talent:** As the Indian economy continues to grow, competition for top talent is intensifying across various industries. Companies are increasingly focusing on employer branding, benefits, and retention strategies to attract and retain high-quality talent. Top talent with critical skills and high-performance history command compensation premiums ranging from 1.7 to 2X of average talent.
- **Upskilling and reskilling:** With the fast-changing job market and rapid disruption of industry through technology, upskilling and reskilling have become essential for employees to remain relevant in their careers. The top skills that are in demand in India include software development, data analysis, digital marketing, and business management.
- **Sectors looking to hire in 2023:** Some of the most promising emerging sectors for jobs in India in 2023 include renewable energy, e-commerce, digital services, healthcare, telecommunications, educational services, retail and logistics and financial technology. These sectors are anticipated to keep growing and provide a wide range of employment options for qualified employees.



Attrition trends

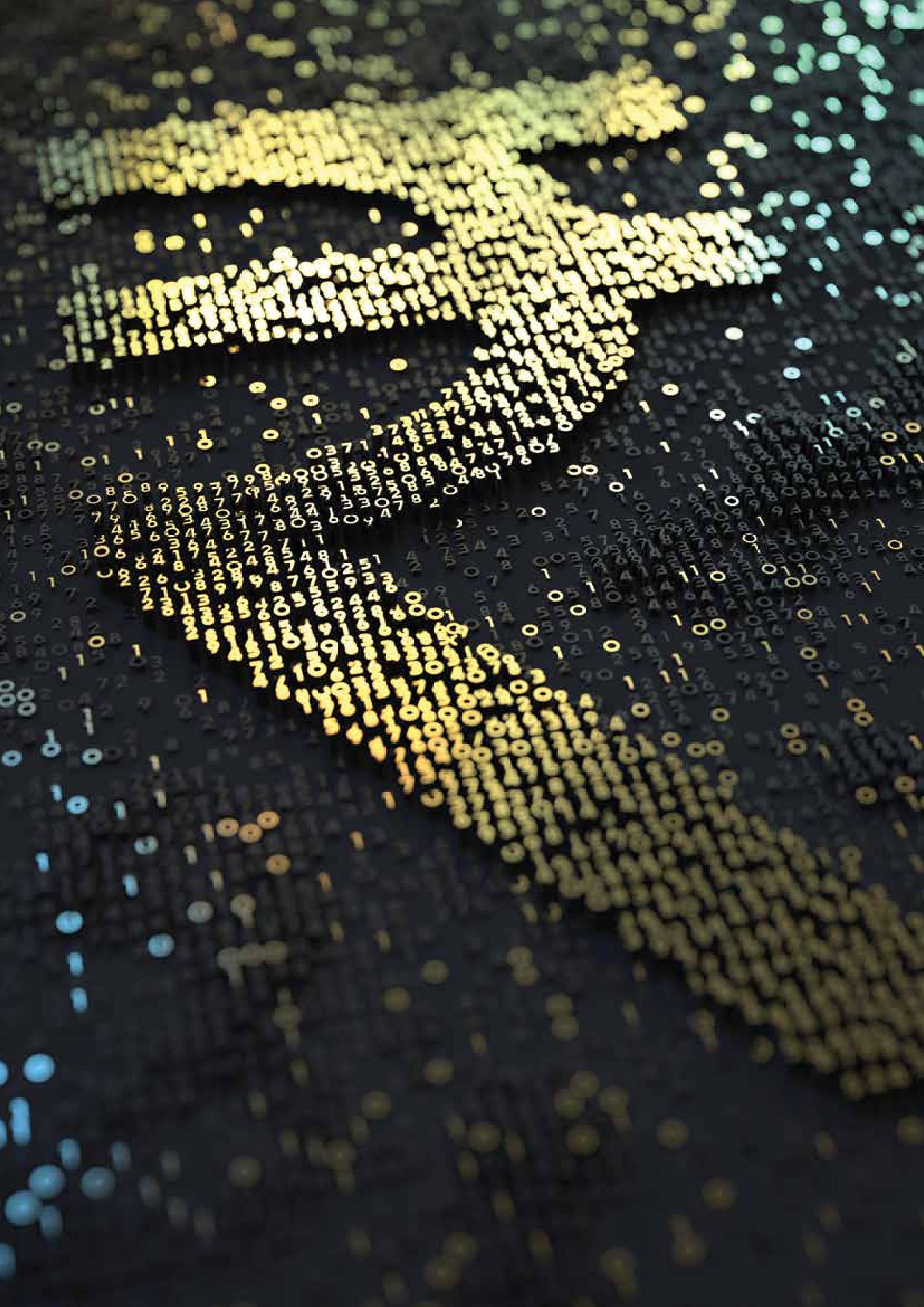
Attrition %	Overall	Voluntary	Involuntary
Attrition highlights			
Overall	21.2%	16.8%	3.6%
Top 3 sectors			
Financial Institutions	28.3%	23.2%	5.1%
Ecommerce	27.7%	24.9%	4.9%
Technology	22.1%	19.1%	3.2%
Bottom 3 sectors			
Metals and Mining	8.2%	7.8%	3.1%
Hospitality/Restaurants	9.1%	8.9%	1.5%
Aerospace	10.9%	8.4%	0.9%

Key insights

- Towards the end of 2022, the attrition rate in India has shown signs of easing from the 2021 level
- A complex interplay of various factors influenced the attrition trends in India in 2022. It included factors such as the state of the economy, job opportunities, and the focus on employee engagement and retention by organizations.
- The ecommerce, technology, financial institutions and professional services sectors are experiencing attrition rates exceeding 20%, which positions them among the top sectors in terms of attrition
- India's startup ecosystem has reached a new level of maturity, with cash-rich companies aggressively hiring tech talent to propel their growth, creating a ripple effect throughout the industry
- The convergence of various sectors, including manufacturing and financial services, toward digital channels for growth is further driving the demand for tech talent

The reasons for voluntary attrition

1. Limited career growth and advancement opportunities
2. External inequity of compensation
3. Internal inequity of compensation
4. Role stagnation
5. Lack of recognition



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Total rewards trends

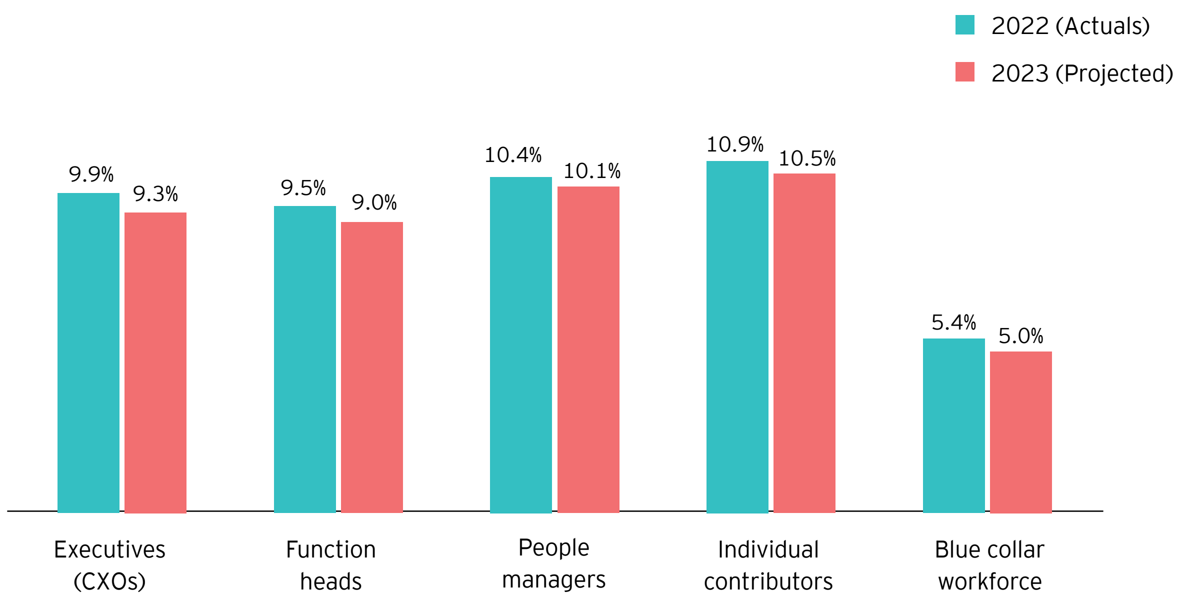
Salary increase trends

The talent trends reveal a mismatch between demand and supply of certain skills and within certain sectors. Compensation continues to be on the rise despite global slowdown and layoffs by multiple companies.

- Key skills and roles will continue to outshine the overall increment numbers due to continued high demand
- Technology skills such as those in AI, ML and Cloud computing are in high demand and command a premium of 15% to 20% over basic software engineering compensation levels
- Analytical skills like risk modelling, data architecture, and business analytics command a premium of 20% to 25%
- While nearly half of the companies (about 48%) pay out the premium by way of increase in salary, about 22% companies preferred to roll out a one-time or a skill bonus to retain key skill within the organization
- Projected salary increases for 2023 are slightly lower than the actual increases for 2022 across all job levels, except for blue-collar workers who are projected to have a slightly larger decrease in compensation in 2023
- With companies investing in developing their employees, they may not need to offer high salary increases, which could explain why the projected hikes in compensation are slightly lower than the actual increases in 2022

Salary Increase %	2022 (A)	2023 (P)
Salary increase highlights		
Overall	10.4%	10.2%

The overall salary increase in employee categories descended to **10.2% (Projected)** as compared to **10.4% (Actuals)** in FY'22, but remains to be in double digits.



Salary increase trends across sectors

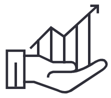
Sector	2022 (A)	2023 (P)
E-commerce	14.2%	12.5%
Professional services	13.0%	11.9%
Information technology	11.6%	10.8%
Financial services	10.9%	10.3%
Automotive / Vehicle manufacturing	10.3%	9.4%
Media & Entertainment	10.3%	10.5%
ITeS	10.3%	9.8%
Telecommunications	10.3%	9.7%
Chemicals	9.9%	9.3%
FMCG/FMCD	9.8%	10.0%
Lifesciences / Pharmaceuticals	9.6%	9.6%
Metals and Mining	9.6%	9.5%
Engineering	9.5%	9.8%
Real Estate / Infrastructure	9.3%	10.2%
Oil and gas	9.0%	9.8%
Transportation services / Logistics	9.0%	10.1%

Key insights

- The significant gap that existed during the recession is now narrowing, and sectors that were severely impacted by the pandemic are experiencing a resurgence
- The IT sector has consistently offered one of the highest salary increases in India, driven by increasing demand for skilled professionals. However, a minor downward trend is seen as global market demand is experiencing a slowdown.
- The e-commerce industry in India has experienced rapid growth in recent years, driven by factors such as increasing internet penetration, rising consumer spending, and the COVID-19 pandemic. However, there seems to be a 170-bps correction in 2023 projections as funding remains cautious
- With the upsurge in internet commerce, transportation and logistics has seen an upswing in salary increments
- Ecommerce, IT and professional services remain the top 3 sectors for salary increase projections in 2023
- Pay hikes offered to average vs high performing talent operate at a ratio of 1:1.8 as an average across sectors

Key roles and skills

Salary increase for key roles and skills



Overall **14.8%** **2022 Actuals**

Skill premiums for key roles and skills

1.9x **Organizations offer premium up to 1.9 times for skills which are high in demand as compared to basic skills**

Key skills/ roles continue to be in demand across sectors and command premium in the market. Given the mismatch in the demand and supply for the key skills, this trend will continue to rise in the near future.

48% Organizations offers premium for the skills which are high in demand

22% Organizations offer one-time bonus/skill bonus and retention bonus for skills in demand

Organizations promote skill premiums for several reasons:

1. **Attract and retain talent:** By offering a premium for specific skills, organizations can attract and retain highly skilled employees who might otherwise be lured away by higher paying offers from competitors
2. **Improve performance:** When employees are compensated for their skills, they are motivated to continue developing and refining their skills, which can lead to improved performance and better results for the organization
3. **Stay competitive:** Organization remains at the forefront of its industry and is well positioned to take advantage of new opportunities and challenges

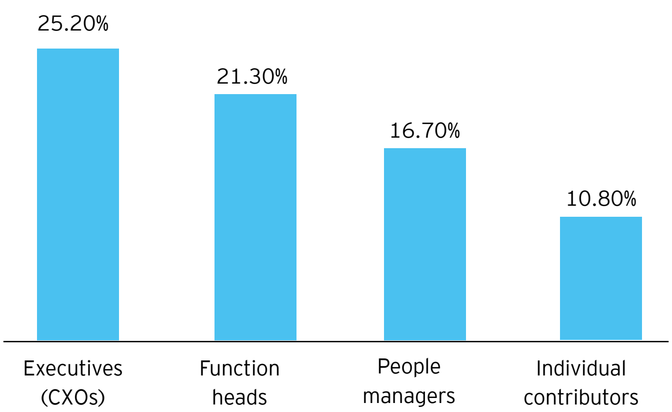
Variable pay trends

Variable pay % **2022 (A)**

Variable pay highlights

Average variable pay-out as a percentage of total compensation **15.6%**

Variable pay 2022(A)



- While executives (CXOs) typically have the highest percentage of variable pay, their projected compensation increases by 2023 are lower than in 2022.
- Variable pay-outs in 2022 reflected the recovery across sectors and many organizations could revise their pay-out plans upward as the year progressed.
- This is a positive sign for both employees and companies as it suggests that business performance is improving and that companies will reward their employees for their contributions to that success.
- Financial institutions have the highest overall variable pay-out percentage of 25.5%, indicating a higher emphasis on performance-based incentives.
- Whereas telecommunications has an overall variable pay-out percentage of 13.7%, which is relatively low compared to other sectors

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The future outlook of rewards

New ways of working

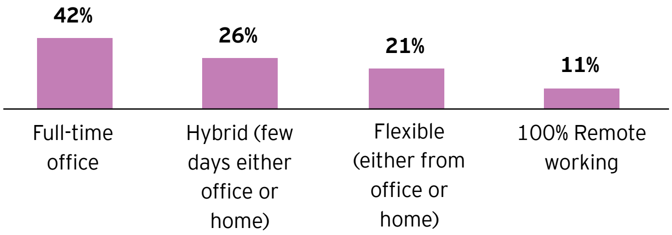
Companies are moving away from giving disproportionate salary hikes and are instead focusing on promoting healthy ways of working to invest in their employees, control costs, and create a more positive work environment. This approach can lead to a more engaged, productive, and loyal workforce over the long term.

The new ways of working are changing the traditional office-based work culture and allowing for more flexible and agile work arrangements that can accommodate the changing needs of employees and employers. With the widespread adoption of communication and collaboration tools, remote work has become increasingly acceptable.

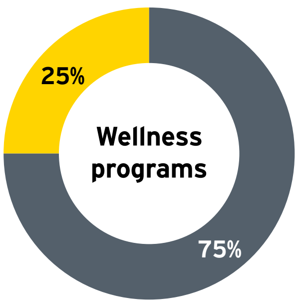
Many companies are adopting flexible work arrangements that allow employees to set their own schedules and work outside of traditional working hours. Co-working spaces provide a shared working environment for freelancers, remote workers, and entrepreneurs, offering a flexible and cost-effective alternative to traditional offices.

Key insights

Ways of working



- Many employers are expecting the workforce to return to office as the markets open, while some organizations still choose to operate in a hybrid/flexible work model
- Organizations are offering the same pay for employees who work in offices versus those who work remotely



- Organisations that have wellness programmes
- Organisations that do not have wellness programmes

- With many organizations are adopting flexible working models, employers are now more focused on incorporating wellness programs as part of their benefits framework
- Emotional and physical wellness are the prime focus for employers, followed by financial and social wellness

New-age benefits

Organizations are offering various new-age benefits as part of their total rewards to keep up with the evolving needs of millennials and to attract and retain high potential talent

Remote working options

Providing remote work options, giving employees freedom to choose their work location, granting fully remote or hybrid working

Flexible work arrangements

Offering flexible work arrangements such as telecommuting and flexible hours helps companies attract employees who value work-life balance

Health and wellness programs

Companies are offering various health and wellness programs to help employees lead a healthy lifestyle. This can include gym memberships, healthy food options, and wellness workshops

Employee assistance programs

Providing resources and support for employees facing personal or work-related challenges, such as stress, financial problems, or family issues

Generous paid time off

Companies are offering more generous paid time off policies, such as unlimited vacation time or paid sabbaticals, to help employees recharge and improve work-life balance

Professional development opportunities

Providing opportunities for employees to attend training sessions, conferences, and workshops can help employees develop new skills and advance their careers

Future outlook for rewards

Equity-based long-term incentives: This is already a popular tool used to retain employees and encourage them to deliver the desired outcomes. There is a growing trend of using equity-based long-term incentives. In particular, new-age digital enterprises are driving the expansion of such incentives, especially in terms of frequency, incentivisation, and covering more employees

- These incentives form as high as 50% of the total compensation in case of senior management/ executives and 25% in case of junior levels
- Among the varieties of share-based incentives offered, the employee stock option plan remains the most preferred type. However, Restricted Stock Units (RSUs) have seen trending and are the second most preferred type of plans.

New labor codes: While there has been a delay in implementation of the labor codes, they are expected to come into effect in 2023. Majority of the companies have taken cognizance of the development and 56% of companies have conducted at least a study of the impact of the new labor codes on compensation. About 26% companies have taken a step further and have adjusted their compensation structure to align with the new labor codes.

Gig economy: In 2020-21, 76 lakh (7.6 million) workers were estimated to be engaged in the gig economy. The gig workforce is expected to expand to 2.4 crore workers by 2029-30. The gig economy empowers workers, giving them flexibility in scheduling and structuring their days so they maximize their potential for work and life. With the rise of freelancing apps and an increasing job crisis, gig jobs are becoming increasingly desirable and available for a tech-savvy generation of Millennials. On the contrary, only 38% of employers believe that gig workers will grow significantly in their organization in the next two to three years.

Personalized benefits packages: As companies seek to attract and retain top talent, they would tend to offer more customized benefits packages that reflect the unique needs and preferences of individual employees. This could include perks, such as student loan repayment assistance, pet insurance, or elder care support.

Technology-enabled rewards management: As companies adopt more advanced HR technology, they may move away from traditional methods of day-to-day rewards management to a technology led platform. This will allow them to use data analytics and automation tools to manage and deliver rewards programs. It could include personalized recommendations for benefits and perks based on employee preferences, or real-time tracking of performance metrics to take informed compensation decisions, etc.

Source: India's booming Gig and Platform Economy, NITI Aayog

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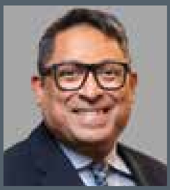

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