

# PAY (ALLOWANCES) AND BENEFITS: DISCRETIONARY VS. MANDATORY COMPONENTS OF A REWARD STRATEGY

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Maintaining an employee's engagement and commitment is essential to satisfy the individual's need for professional fulfillment while achieving organizational goals. A successful approach to keep talented individuals engaged and motivated requires rewarding them appropriately. The challenge for human resources in global organizations involves planning to optimally use information about the workforce and market practices – as well as meeting the requirements of local law, labor agreements and cultural nuances.

## A REWARD STRATEGY

Employers adopt various ways to reward and motivate employees – both monetary and non-monetary. While, at times, a simple “thank you” can go a long way, other efforts require a more significant reward. In addition to incentives that are key to motivating employees to excel, discretionary allowances and benefits are excellent vehicles for recognizing good performance and making employees feel valued and appreciated by management.

Two important aspects to consider in rewarding employees are fairness and appropriateness of the reward. To ensure that these factors are considered, HR needs to balance employer, employee, and cost perspectives:

- **Employer Perspective.** Employers need to know the prevalent local practices, as well as statutory requirements, for providing benefits and allowances not only to support their attraction and retention strategies, but also to avoid noncompliance. If they cannot grant competitive rewards – whether simple incentives, specific allowances, or discretionary benefits – they risk losing valuable talent to organizations that can.
- **Employee Perspective.** Employees receive allowances as part of their cash payouts, while benefits are paid in kind, and both elements can represent a motivational part of the pay package when not mandated by law. Further, it is important that employees understand that some rewards may be discretionary, and must be earned or granted only upon achieving specific targets or measures, either on an individual or group basis.

- **Cost Perspective.** A successful strategy considers the total cost to the company in its efforts to provide fair, reasonable and competitive rewards.

## STRATEGY AND POLICY FACTORS

When implementing effective compensation and benefits policies, HR needs to address the various factors impacting the pay package. For example:

- Compensation, in particular, allowances and benefit trends, vary from country to country, as well as by employee level and industry. For example, a company with a very young working-age population might place more emphasis on family-friendly benefits.
- Another aspect that adds complexity to a company's reward strategy is whether these components are offered at the employer's discretion (thereby varying by company as per market practice), covered under a labor agreement or mandated by country regulations (such as minimum wage, overtime, medical leave, unemployment, workers' compensation and disability).

Typical discretionary allowances and benefits can be classified into two categories:

1. **Monetary** – incentives (such as a cash bonus for meeting a target), cell phone bill reimbursement, health insurance and transportation allowance.
2. **Non-monetary** – extra time off, movie tickets, restaurant coupons, gift cards, recognition of birthdays, a parking space, a corner office, employee discount programs and recognition and praise by managers and supervisors.

A company's policy on employee allowances and benefits should be specific and clearly defined and communicated to avoid confusion on the part of both management and employees. To support its reward strategy (and remain compliant with local laws and agreements), HR needs to consider the following questions:

- Which allowances and benefits are prevalent in the particular market (e.g., region, country, industry)?
- How competitive does the organization wish to be (and with whom)?

- Which optional allowances and benefits does the company wish to provide?
- Which optional allowances and benefits can the company afford to provide?
- What statutory allowances and benefits must the company provide to comply with local laws or labor agreements?

As practices differ in regions across the globe, the following discussion examines some of the wide range of allowances and benefits offered, as an example, in the Asia-Pacific region.

## COMMON ALLOWANCES AND BENEFITS IN ASIA PACIFIC

In some Asian countries, allowances can play a more important role than base salary. In India, Bangladesh and Sri Lanka, base pay and allowances together make up the gross salary of employees' compensation. Consequently, the proportion of base pay is very low compared to allowances (which are usually considered as a form of compensation).

Some of the more common allowances across Asia Pacific include the following:

- Meals and other guaranteed allowances are the most prevalent.
- Employers pay cash allowances (e.g., shift allowances) in China, Hong Kong, India, Indonesia, Japan, Malaysia, Pakistan, the Philippines, Singapore, South Korea, Taiwan and Thailand. Companies in these locations also commonly compensate for specialized skills through skill allowances.
- Japanese employers typically provide allowances for area, family and deemed overtime.
- A transportation allowance is also prevalent, with annual guaranteed cash subsidizing transportation expenses to and from the workplace, or other business-related travel. Companies in Bangladesh, India, Pakistan and Sri Lanka call this item a conveyance allowance. Japanese employers base the amount on actual claims.

Among all benefit types, car benefits are the most popular in Asia-Pacific, followed by retirement and health benefits. Regional employers also have programs for loans, club subscriptions, children's education, flexible benefits and perquisites.

## UPCOMING TREND IN ASIA-PACIFIC: FLEXIBLE BENEFITS

Higher salary increases or promotions are not always sufficient for attracting and retaining an organization's talent pool. To keep the workforce engaged, Asian employers use a broader value proposition that leverages the value of non-salary components, most notably employee benefits.

Historically, offering benefits was considered a cost of doing business rather than a key aspect of workforce planning. Employers covered benefit costs to a large extent for employees, placing a heavy burden on the company's balance sheet. In addition, employers offered the same benefits across the board; however, a "one size fits all" approach was not always appropriate for employees with varying needs and concerns. Consequently, to provide optimal benefits from a usage and cost perspective requires knowledge about employees' benefit needs. For example, benefit plan requirements differ, among other factors, by age:

- 20- to 35-year olds are interested in career training, cash, and vacation.
- Those in their late 30s and 40s want life insurance and medical coverage for themselves and their dependents.
- The 40+ group place more emphasis on pension and medical benefits.

In recent years, Asia-Pacific companies – along with the rest of the world – have faced rising healthcare and benefit costs. To address this issue, progressive employers have started implementing flexible benefit plans. Such programs facilitate cost sharing with employees (who choose their benefit levels and plans), which enhances the perceived value of benefits.

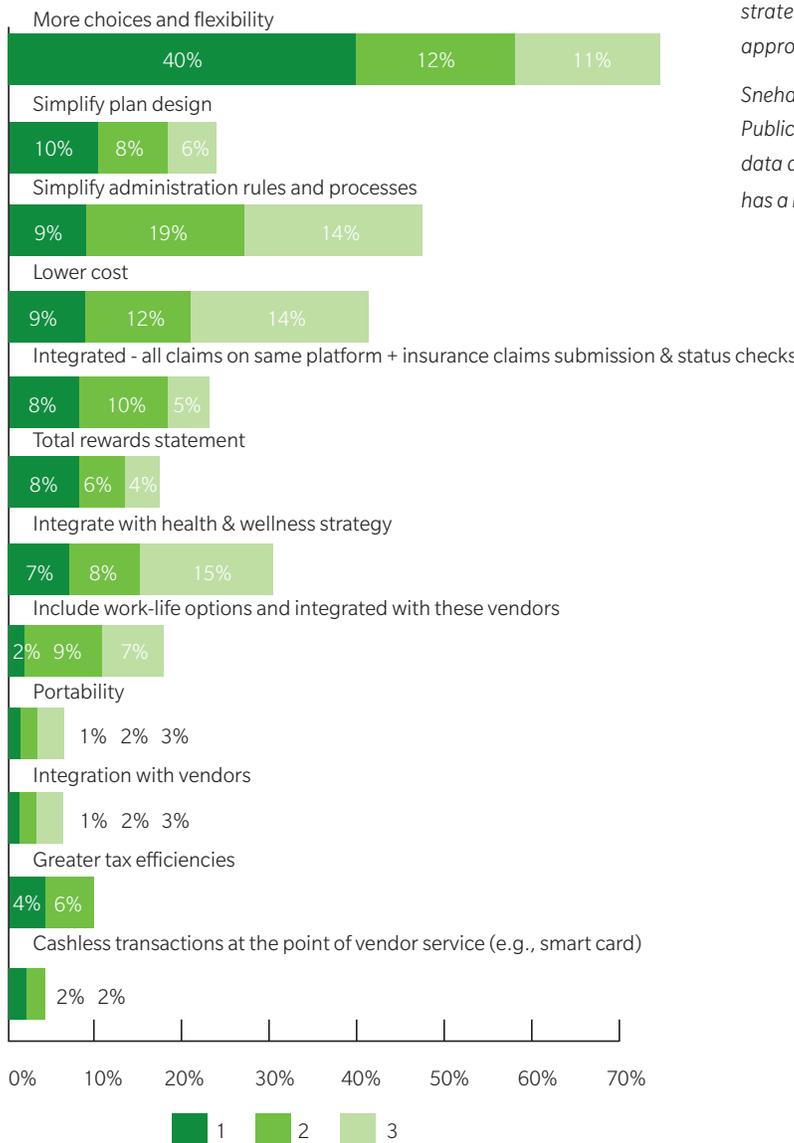
In essence, the focus of benefits is shifting from employer-sponsored plans to shared contributions and more flexible options for employers and employees. This trend is consistent with changes in Europe and America, as employers are trying more effectively to manage their benefits strategies in light of growing costs.

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Mercer’s research indicates the growing prevalence of flexible benefit plans across Asia-Pacific. For example, in the Mercer 2010 *Talent Retention Survey*, implementing a flexible benefit plan that allows more employee choice was the top benefit strategy for employee retention and satisfaction across Asia-Pacific. Further, Mercer’s 2011 *Asia-Pacific Total Health and Choice in Benefit Survey* report results shows that on the scale of 1 to 3 (see Chart 1, “Desired Attributes in Future Employee Choice Programs”), the top 3 priorities in planning employee choice programs are:

- More choice and flexibility
- Simplified plan designs
- Simplified administration rules and processes, and lower cost

### Chart 1. Desired Attributes in Future Employee Choice Programs



Source: 2011 Asia-Pacific Total Health and Choice in Benefit Survey

### THE ULTIMATE GOAL

With the future challenges caused by an aging population, a shortage of skilled workers and economic uncertainty, employers need an optimal strategy to attract, retain, and motivate valuable employees. The “one size fits all” approach may not work for compensation elements such as allowances or benefits as a reward strategy. To match the competitive demands on business performance, it is critical for HR to design unique rewards for better employee productivity. But those rewards must also be in compliance with local country regulations or labor agreements. The organization’s ultimate goal is a balance of employee satisfaction, employer costs, market competitiveness and government/labor compliance.

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