**Aon Hewitt**
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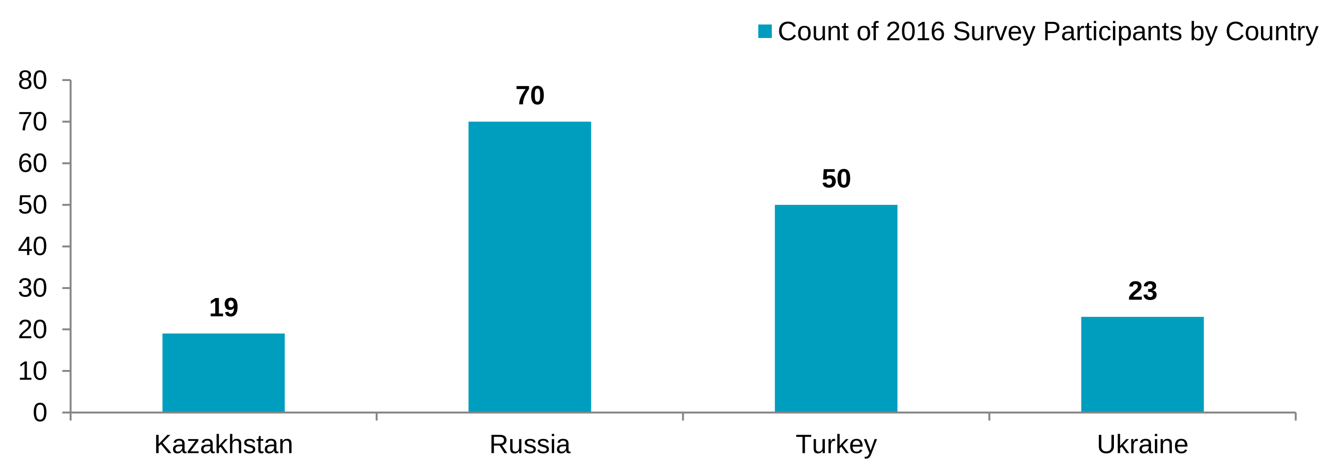
# More Companies Are Taking Steps to Protect Employee Earnings in Uncertain Markets

*A number of technology firms with employees in Russia (and neighboring countries) are now marking special adjustments to their pay programs to address currency and market concerns.*

Starting in early 2015, technology companies with employees in Russia became increasingly concerned about the impact of rising economic instability on their employees. Fast forward a year later, and those concerns remain just as salient, and not only in Russia, but in many neighboring countries as well.

In January 2015, Radford conducted a special survey of technology companies with employees in Russia to assess their initial approach to falling currency exchange rates and a general slowdown in the Russian economy. At that time, we found that most firms were taking "wait-and-see" approach. No one wanted to jump the gun and make wholesale changes to their rewards strategies, yet. (For information on last year's study, please see our paper *Managing Compensation Programs in the Face of Russia's Sudden Currency Devaluation*.)

To check-in on our clients, we recently completed a follow-up study in January 2016. The slowdown in Russia's economy is clearly not a passing fad, so we wondered if client opinions would be shifting toward taking more direct steps to address potential employee hardships. We also broadened the scope of our survey to include Kazakhstan, Turkey and Ukraine. Together with Russia, these countries have seen some or all of the following negative economic trends: rising inflation, stagnating or negative GDP growth, currency devaluations and rising consumer prices. For example, Kazakhstan saw a remarkable 75% decline in its currency for 2015.



Most participants in our January 2016 survey pay their employees in local currencies. This usually suggests that compensation strategies are strongly tied to local market pay practices— even in countries experiencing significant economic volatility. This is significant because it means volatility within local economics would have a greater impact on employee earnings and would likely weigh heavier on an employer's decision to make special compensation arrangements for their local workforce.

Our latest survey results indicate companies are beginning to shift from passive to active in addressing market uncertainties. In Russia, 61% of surveyed companies implemented some type of special compensation measure last year, followed by 39% of companies in Ukraine. In Turkey and Kazakhstan, companies are less aggressive—only 10% and 5% of firms took action, respectively.

As the table below illustrates, the most common actions taken in Russia are the introduction of special monthly allowances and the use of larger than normal salary budgets. However, practices vary by country, suggesting local market conditions and requirements play a large role in driving company behavior. In Ukraine, one-time salary increases, lump sum cash awards and "other" actions were the most popular actions.

## Special Compensation Measures Implemented in 2015

| | Kazakhstan | Russia | Turkey | Ukraine |
|---|---|---|---|---|
| Significantly Higher Salary Budget | 5% | 16% | 6% | 4% |
| Multiple Salary Increases | -- | 3% | -- | 4% |
| Additional One-Time Salary Increase | -- | 13% | 2% | 17% |
| Lump Sum Cash Award | -- | 13% | -- | 13% |
| Special Monthly Allowance | -- | 21% | -- | 9% |
| Increase in Company Car Benefit | -- | 3% | -- | 9% |
| Increase in Other Allowances (e.g. meals, etc.) | -- | -- | -- | 4% |
| Other Actions | -- | 11% | 2% | 17% |

Note: Companies were allowed to select more than one option.

Digging deeper, we found that the primary factors influencing the adoption of special compensation measures, in addition to results from regular annual benchmarking, were inflation rates, employee turnover and the criticality of employees or operations in the country. The nature and frequency of local feedback also paid a large role in determining company responses.

Looking ahead to the rest of 2016, a plurality of technology firms surveyed said they don't currently plan on providing new or additional special compensation measures. However, in some cases, companies that provided a special allowance in 2015 may roll those payouts into base pay— thereby removing their need for further action at this time. Still, a meaningful number of companies in Russia and Ukraine (26% and 30%, respectively) said they are maintaining or expect to add special compensation measures. The table below provides additional details for all surveyed countries.

## Special Compensation Measures Planned for 2015

| | Kazakhstan | Russia | Turkey | Ukraine |
|---|---|---|---|---|
| Not providing special measures | 5% | 16% | 6% | 4% |
| Eliminating or reducing special measures | -- | 3% | -- | 4% |
| Maintaining current special measures | -- | 13% | 2% | 17% |
| Adding or increasing special measures | -- | 13% | -- | 13% |
| Don't know or no response | -- | 21% | -- | 9% |

Note: Companies were allowed to select more than one option.

Of course, as was the case at the start of 2015, market conditions and thinking may change. Most companies report that they will continue to closely monitor local market compensation trends, watch economic indicators and listen to local managements teams. If market conditions to continue to sour in some or all of these markets, we can expect to see yet another shift from passive to active approaches in dealing with country-specific economic instability.

To contact our team to learn more about our January 2016 survey, or to inquiry about purchasing results, please write to Marie Brinkman at mbrinkman@radford.com.

To learn more about participating in a Radford survey, please contact our team. To speak with a member of our compensation consulting group, please write to consulting@radford.com.

# Author Contact Information

**Marie Brinkman**
Associate Partner
Radford
+1.415.518.2371
mbrinkman@radford.com

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