AON INDIA's
26th SALARY INCREASE SURVEY

2021–22 PHASE I

Prepared by Rewards Solutions

Rewards Solutions
Proprietary & Confidential

Empower Results®

FOREWORD

Rewards in India – Winds of Change

The last eighteen months have fundamentally changed our reference points and profoundly impacted the employee-employer relationship. While during the first wave the focus was on limiting impact on businesses and securing the immediate future, the narrative during the second wave has shifted towards employee welfare, productivity, and engagement.

Hence, this year's Salary Increase Survey was critical for us to gauge the broader industry sentiment. The 2021-22 Salary Increase Survey results have a lot of unique nuances. Salary increase projections for 2022 have improved to 9.4% while the actual increase in 2021 was 8.8%, indicating economic recovery and a journey back to pre-pandemic salary increase levels. This can be attributed to the return of a pent-up demand, high investor confidence and a booming technology sector fueled by investments made by firms in scaling digital capabilities across sectors. Unsurprisingly the biggest chunk of the pie in salary increases is also going to digitally skilled employees with an average increase of 12.5% in 2021. Performance differentiation trends indicate a return to normalcy for top executives who had to take paycuts and lower bonus payouts in 2020.

Another big story of this year's survey is an unparalleled increase in attrition standing at 20% which is the highest seen in over a decade. This spike in attrition being a result of multiple factors from a huge surge in demand for digital talent across sectors, lower engagement levels in a remote working environment to a greater employee confidence in switching jobs.

This year's study also goes beyond this and looks at how firms are adapting to a virtual environment, their plans around return to work and initiatives towards building an inclusive workplace. We are excited to bring these results to you and hope they help you get a good perspective around rewards and talent management trends in 2021.

Roopank Chaudhary
Partner,
Chief Commercial Officer

Media Coverage

Across more than 110 media and broadcasting houses

- आज तक
- THE HINDU
- भास्कर न्यूज़
- mint
- moneycontrol
- india.com
- BUSINESS INSIDER
- दैनिक भास्कर
- ZEE BUSINESS
- OTV
- CNBC TV18
- INDIA TODAY
- Business Standard
- ET NOW
- The Statesman
- LinkedIn
- THE ASIAN AGE
- people matters
- BW BUSINESSWORLD
- HT Hindustan Times
- Outlook
- business today
- The Indian EXPRESS
- THE TIMES OF INDIA
- THE ECONOMIC TIMES
- FINANCIAL EXPRESS READ TO LEAD
- THE FREE PRESS JOURNAL

About the Survey and Key Considerations

The report presents the results of Aon's India 26th Salary Increase Survey trends. This is the longest running and most quoted piece of research across rewards and performance trends in India, as well as globally. The survey focusses on overall changes in compensation for 2021 and projections for 2022.

With participation from over 1350+ organizations representing 39 industries that incudes sectors such as Hi-Tech/Information Technology, E-Commerce, Professional Services, Financial Intuitions, FMCG/FMCD, Hospitality, Energy etc. the study provides a comprehensive view of current and emerging salary trends across the spectrum of industries.

The report covers submissions received during July and August, and the results focuses on salary trends of 2021, salary budgets projected for 2022, factors influencing pay decisions, performance and pay trends, rewards challenges that organizations are facing and measures taken-up to control the escalating attrition rates across the sectors.

- All numbers that have been reported are including 0s.
- Number of Respondents (Ns) across each question in the survey are varying and hence the average across employee groups may not be equal to the overall analysis
- Data has not been represented across those questions wherein the number of respondents are less than 5.
- Percentages will total more than 100% across certain analysis due to multiple responses shared by participants.
- Variable Pay has been represented as a percentage of Total Fixed Pay.
- Attrition numbers have been annualised for the calendar year 2021-22.

NOTE BY THE SURVEY TEAM

Roopank Choudhary
Survey Director

Sushil Bhasin
Mktg & Media

Jang Bahadur Singh
Survey Manager

Vishakha Kalra
Survey Team

Nikita Lohani-
Survey Team

Supriya Aiyer
Survey Team

Nessica Birwadkar
Editorial Team

Srishti Gupta
Editorial Team

As we inch towards a potential turning point in the fight against COVID-19, we are witnessing the end of an era of standardization, accelerated by digital technology adoption. The "Winds of Change" are here, as tradition gives way to unconventional approaches for managing talent and rewards. It is in this backdrop that we are proud to bring you results from the 26th edition of Aon India's Salary Increase Survey Phase I.

The survey garnered participation from over 1350 organizations, spanning across a broad spectrum of more than 39 sectors, pan India. In this edition, we share insights for organizations to help them plan for 2022 salary increase budgets, the digital upstart, improving employee engagement and managing rewards in a virtual environment while creating an inclusive workplace.

We thank you for your participation and the continuous patronage you have accorded Aon over the years, and hope that the report proves useful as organizations set policies and strategies to improve the odds of thriving in the new normal.

TABLE OF CONTENTS

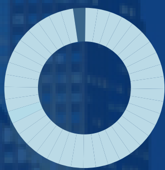
AON INDIA's 26th SALARY INCREASE SURVEY
2021–22 PHASE I

TABLE OF CONTENTS

Aon's Salary Increase Survey

Highlights

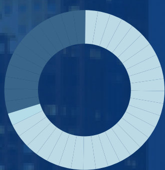
Forecast



98.9%

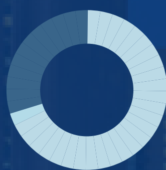
Companies intend to give salary increases in 2022, as compared to 97.5% companies in 2021

Salary Increase



8.8%

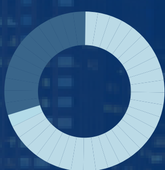
2021 Actual salary



9.4%

2022 Projected

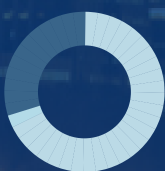
Variable Pay



11.8%

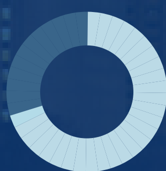
2021 actual variable pay (% of fixed pay)

Attrition



20%

Overall attrition



15.4%

Voluntary attrition

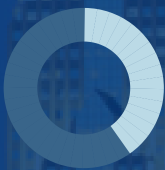
1

Overview of Salary Increase Budgets

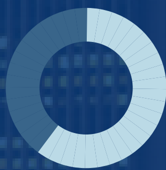
- Business Outlook for 2022
- Overview of Salary Increases across Employee Groups
- Salary Increment Cycles and Correlation with Increases
- Sector Wise Increment Numbers

Overview of Survey Increase Budgets

Highlights

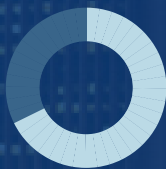


45%
organizations saw growth in 2021

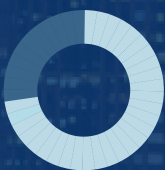


62%
organizations project growth in 2022

57%
organisations gave a greater than 8% increase in 2021



68%
organizations are projecting a greater than 8% salary



72%
organisations went ahead with increases as planned

Resilience, Buoyancy and a Positive Sentiment

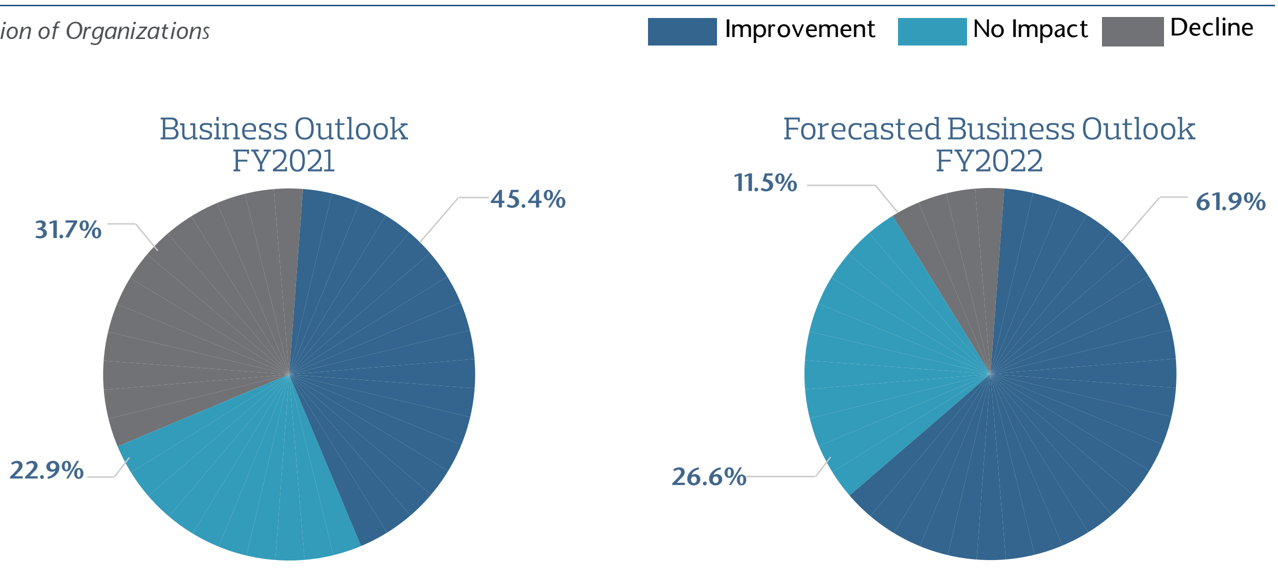
A hard-hitting second wave of the pandemic failed to shake off corporate India from its recovery path as firms performed better than expected and the same is reflected in the salary increase numbers for 2021 and projected number for 2022.

Business Outlook for 2022 Confirms Recovery Path

Despite another wave of COVID-19 hitting the nation hard, Indian organizations have displayed resilience in riding through the tough times. Macro-economic indicators are moving in the positive direction. **The GDP growth projections for 2021 are back upto 9.4% for 2021**, domestic flyers in July touched the 50 lakh mark, up 61% from June 2021. The auto industry reported an impressive 49% growth in sales over July 2020 and even India's industrial production grew 13.6 per cent in June 2021 over the same period from the year-ago.
In our survey too, 45% of the respondents reported business growth in 2021 and a further 62% of the respondents projected growth in 2022 reconfirming that corporate India is on the recovery path.

Business Outlook FY 2021 and FY 2022

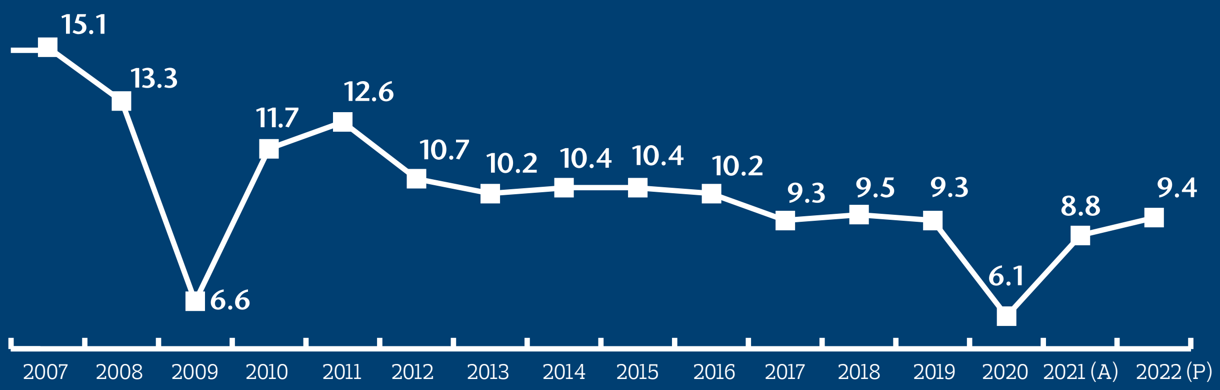
Distribution of Organizations



The salary increment numbers projected for 2022 are back to pre-pandemic levels and this can be attributed to the return of the pent-up demand and high investor confidence

Decadal View of Salary Increase Numbers

Salary Increase Trends



Aon's India Salary Increase Survey has projected a 9.4 per cent average annual salary hike for 2022, as against 8.8 per cent in 2021 and 9.3 per cent in 2019. The salary increment numbers projected for 2022 are back to pre-pandemic levels and this can be attributed to multiple factors. The industry has seen a return in pent-up demand as projects that had been stalled or pushed out have been kick started again.

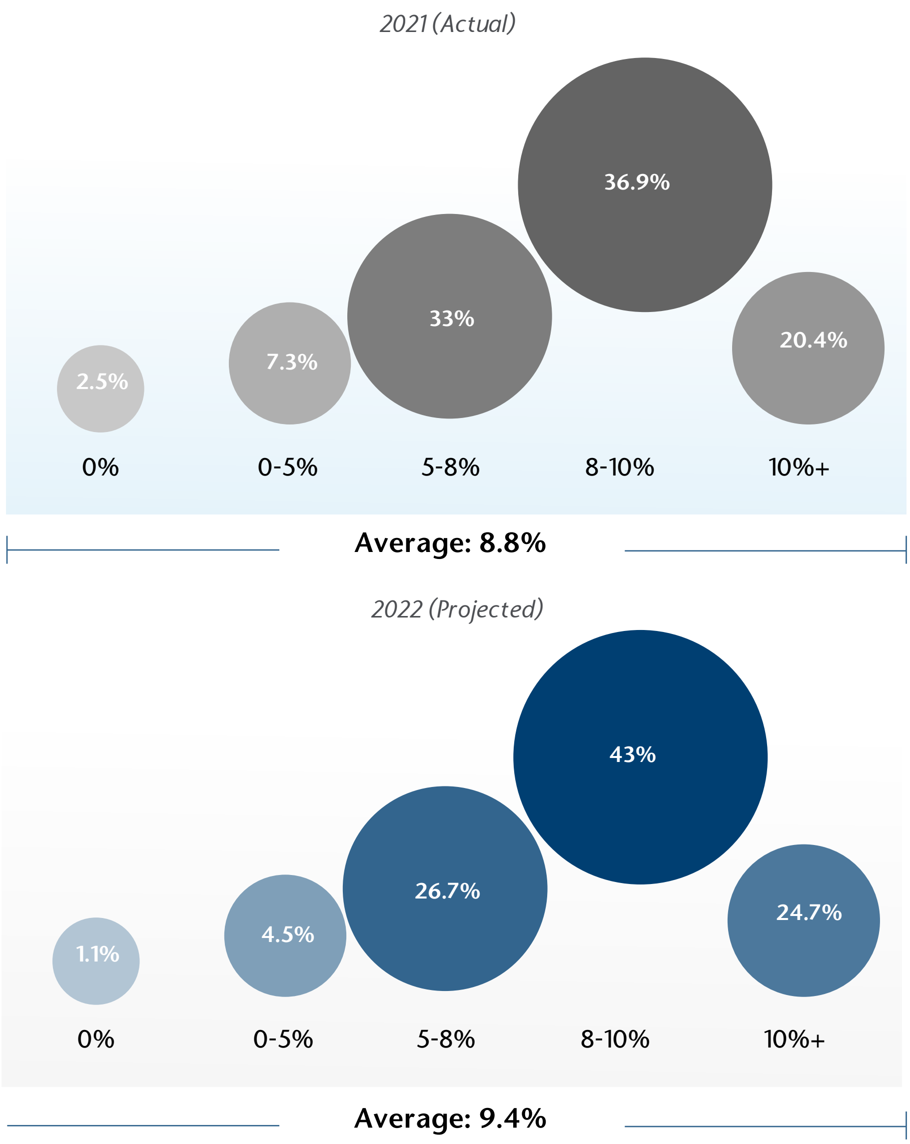
The investor confidence is really high as seen in the sustained amount of FDI that continues to flow in. Importantly firms across sectors are showing unique adaptability in not only functioning but also in some cases thriving in the current scenario. A major portion of the growth has been fueled by the investment made in scaling digital capabilities by firms across sectors.

Looking at the demand pipelines and growth projections it is fair to say that we will continue to see an inflation in salary increase numbers over the next couple of cycles.

Salary Increments Across 2021 and 2022

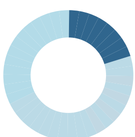
We see an upward movement in salary increases from 2021 to 2022 on account of fewer organizations planning no increments, thus pulling up the average.

Salary Increments Across 2021 and 2022

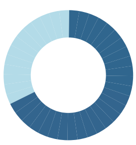


A testament to the recovery story for organizations in India is the fact that unlike 2020 where more than 20% of the organizations had opted for no increases the number drops sharply to less than 3% in 2021 and a projection of less than 1% for 2022. Further we see a clear left skew in the salary increases with the number of firms giving salary increases greater than 8% rising to 57% in 2021 up by 15% from the 2020 cycle.

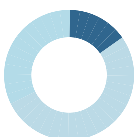
Number of organizations going for zero increments is projected to reduce in 2022



20% drop in organizations giving zero increases in 2021 from 2020



68% organizations are projecting increases greater than 8% in 2022



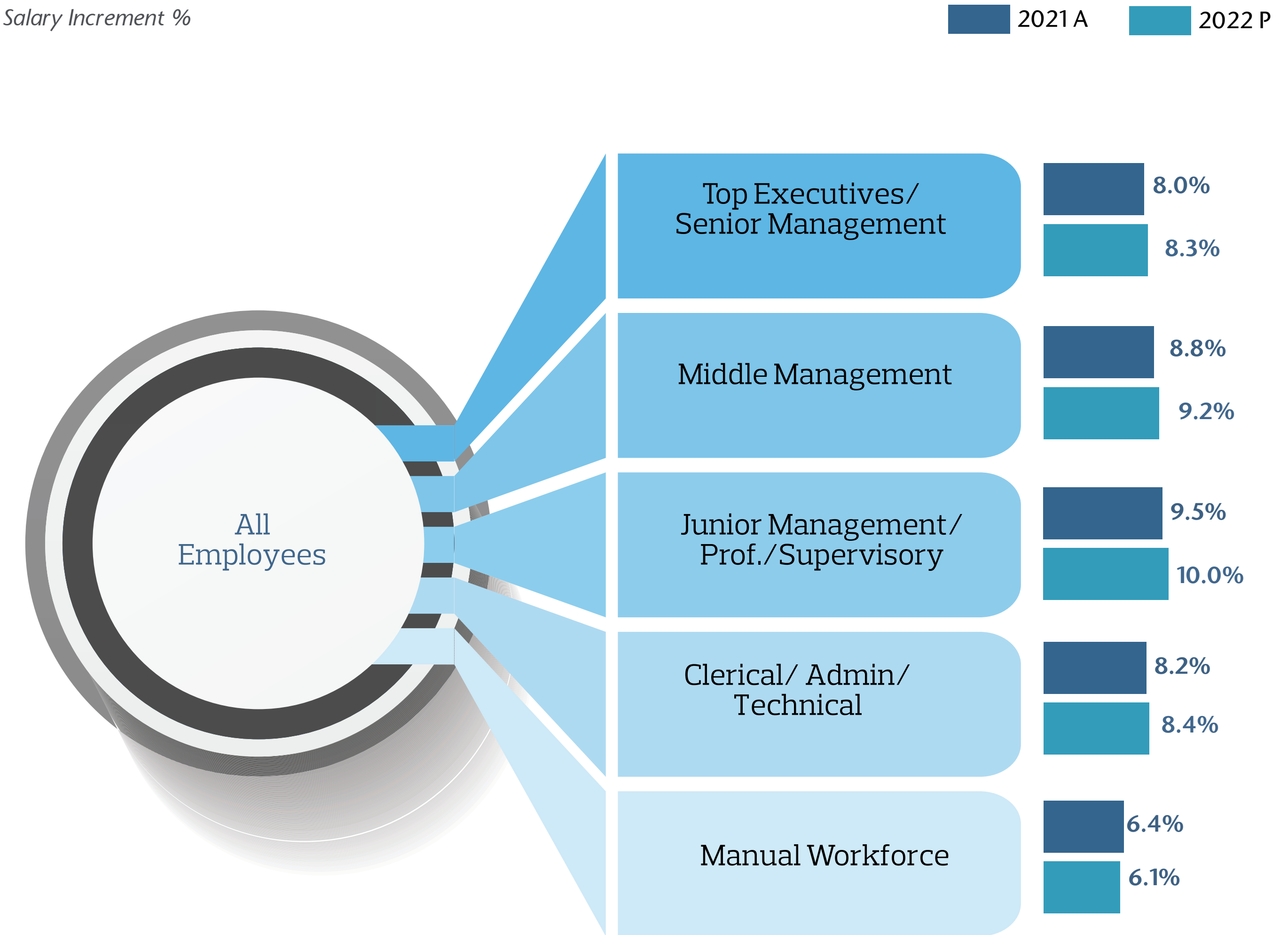
15% more organizations are projecting higher increases than 8% in 2022

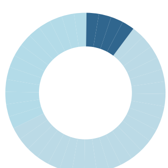
Salary Increments by Employee Groups

2021 (Actual) and 2022 (Projected)

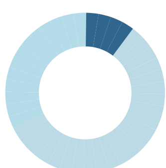
A break-up by level of salary increases follows past trends of organizations giving higher increases for junior employees. In 2021 as well junior and professional levels saw the highest salary increase of 9.5% with the number expected to cross 10% in 2022. This number tapers-off as one goes up the levels of hierarchy with the senior management level seeing a salary increase of 8% in 2021 which is likely to go up to 8.3% in 2022 . The lower increases at senior levels are owed to the higher base of salaries at these levels with organizations preferring to park a large percentage of salary for senior levels under the variable component both to incentivize performance and manage

Overall Salary Increase by Employee Groups





8.8%
Actual Salary Increase 2021 Across Employee Groups



9.4%
Projected Salary Increase 2022 Across Employee Groups

Curious case of 2021 Salary Cycles and Increases

As the pandemic raged in the country in 2020 peaking around Q2 and Q3, broadly 3 types of Increment Cycle scenarios played out

i Organizations with Q1 increment cycles from Jan to Dec (pre-COVID) which went ahead with their planned increases for 2020 with no changes to budget

ii Organizations with Q2 and Q3 increment cycles from Apr-Mar or Jul-Jun coinciding with the COVID peak and had to defer their cycles or had reduced budgets

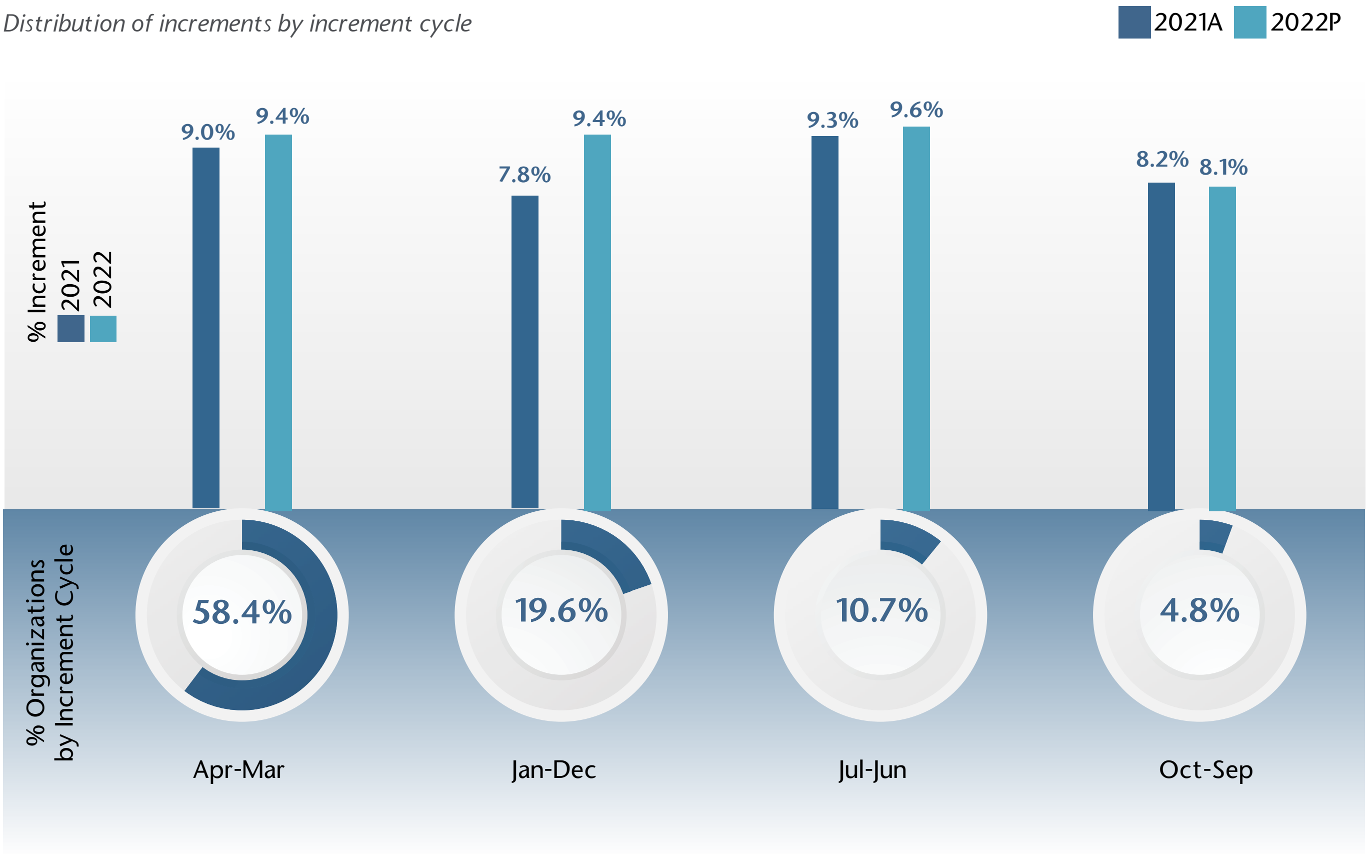
iii Organizations with Q4 increment cycles from Oct-Sep(Post the peak) which were able to assess the impact of COVID better or could avoid it altogether and were able to shape increment budgets

But when we look at the actual increases by 2021 the trend reverses itself. Organizations in category (ii) are playing catch-up with the others and hence their projected 2021 numbers are the highest While this is an expected outcome this may on the other hand create a unique situation for the organizations whose cycles didn't overlap with the COVID peak.

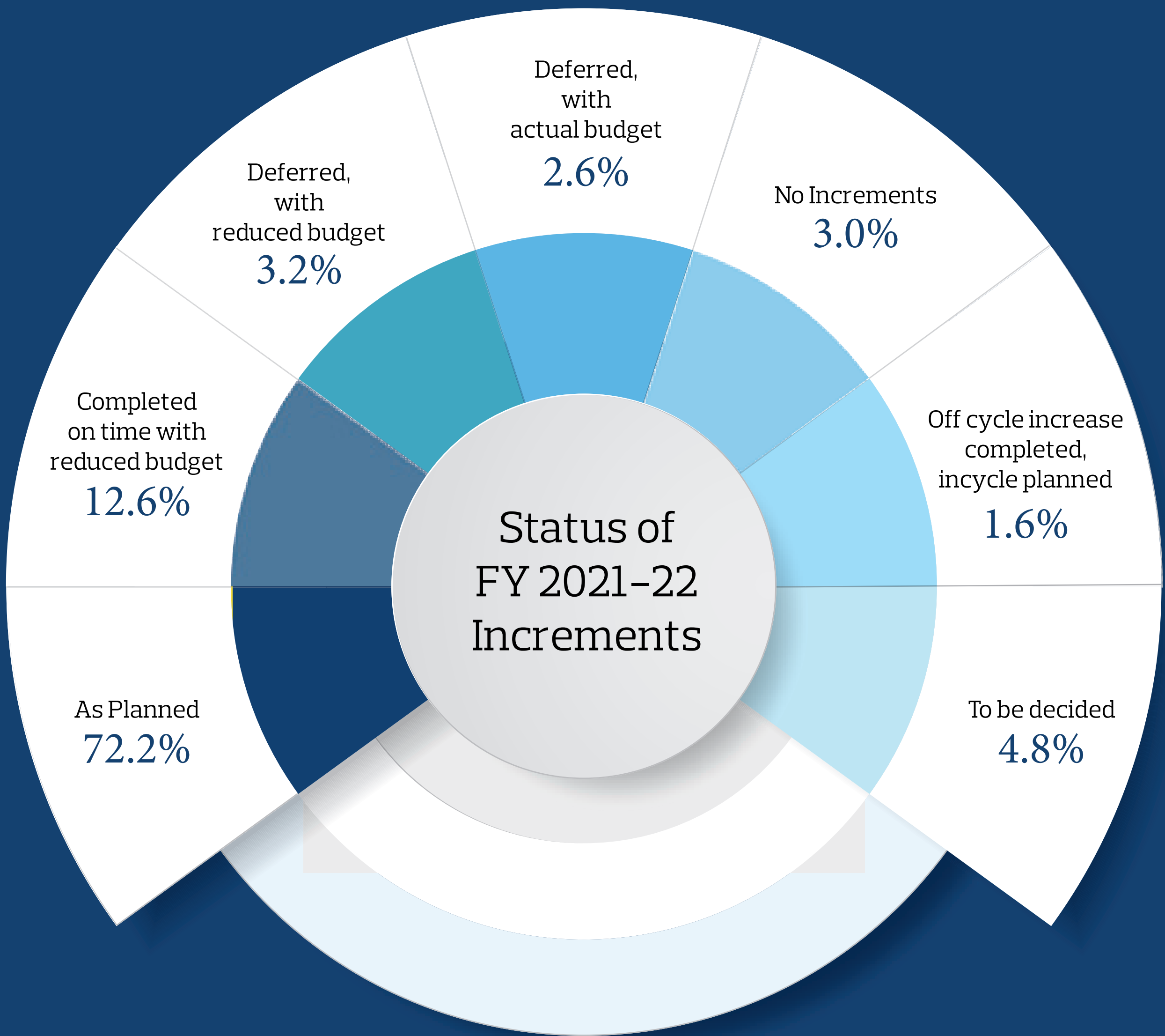
Another important aspect of the 2021 cycle was that majority of the firms (72%) were able to go ahead with their cycles as planned which is also likely to bring normalcy to 2022 especially given that having deferred 2020 increases a large number of firms have in effect given two increases in a very short space of time.

Salary imcrement cycle and increments

Distribution of increments by increment cycle



Status of FY 2021-22 Increments



India Inc learning to live "inspite" of a constant threat of a third wave with the majority of organizations going ahead with cycles as planned.

Sector Wise Increments

2021 Actuals and 2022 Projections

Increment numbers by sectors

2021 (Actuals) | 2022 (Projections)

2021 A   2022 P

Sector	2021 A	2022 P
Hi Tech/Information Technology	10.5%	11.2%
Professional Services	10.2%	10.6%
Ecommerce	10.1%	10.6%
ITeS	9.1%	9.6%
Lifesciences / Pharmaceuticals	8.8%	9.3%
FMCG/FMCD	8.5%	9.2%
Retail (incl. Wholesale & Distribution)	7.4%	8.4%
Engineering Services	7.6%	7.7%
Telecom (Services & OEM)	7.6%	8.3%
QSR/Restaurants	6.6%	7.9%
Cement	7.5%	7.8%
Transportation Services/Logistics	8.5%	9.2%
Entertainment & Gaming	7.9%	8.1%
Aerospace Engineering	8.5%	9.1%
Automotive/Vehicle Manufacturing	8.0%	9.1%
Engineering/Manufacturing	8.4%	8.8%
RE/Infrastructure	6.2%	8.8%
Chemicals	8.7%	8.6%
Financial Institutions	7.7%	8.3%
Metals & Mining	8.3%	8.3%
Energy (Oil/Gas/Coal/Power)	8.2%	7.7%

This year we see sectors among the top 5 doling out double digit salary increments while the sectors in the bottom half still managed to hit the 8% mark. Also unlike last years where the variance in salary increases between top 5 and bottom 5 was more than 100% the same has dropped significantly for 2021 actuals and 2022 projected numbers. The theme of converging salary increases, the sign of a maturing industry is back.

The pandemic has fundamentally changed the business models for organizations and consumer behavior has also adopted well to digital channels. In turn, organizations are expanding their digital capabilities, thus driving the investments in digitally native sectors such as Hi Tech, IT, ITeS and E-Commerce industries.

Another sector that did well was life sciences as an increased dependence on healthcare and pharmaceuticals ensured that the industry thrived, notwithstanding the economy. Unlike 2020, non-essential surgeries are also being performed, further boosting the revenue for the industry

On the other hand while demand has improved for restaurants. , QSR and sectors such as Real Estate and Infrastructure, they will continue to see the lowest increases in 2021.

Businesses will have to redefine their talent strategies to keep pace with the war for talent.

Most Indian organizations, across traditional and non-traditional sectors, are making investments in digital capabilities to sustain the growth momentum and disrupt their industries. Employees with digital and technological skills are the most successful in 2021, as we see the highest salary increase for employees with these skills across sectors. We expect that this trend will intensify over time, as organizations have an increased need for this talent to transform their business models and build resilient workforces.

The pandemic has accelerated the digital journey for organizations. This led to an unprecedented war for digital talent in the short term and is driving up salary increase budgets and attrition numbers across sectors. Businesses will have to redefine their talent strategies to keep pace with the war for talent.

As different organizations grapple with these unique challenges it may not be possible to take the middle path always. Organizations will have to make tough choices regarding the segments they prioritize for investment and the approaches they take to manage sentiments.

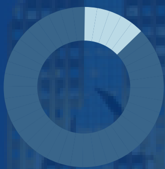
2

Pay for Performance

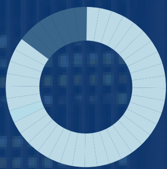
- Variable Payout Trends
- Variable Pay Practices
- Salary Increments and Performance Ratings
- Performance Bell Curve 2021
- Alternatives to Bell Curve
- Long Term Incentive Practices

Pay for Performance

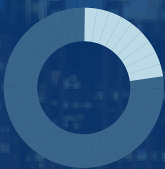
Highlights



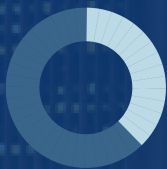
12%
actual bonuses payout in 2021



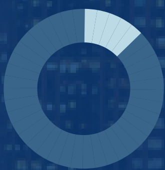
85%
organizations gave out bonuses in 2021



22%
organizations are re-looking bonus communication



38%
employees in the top two performance rating categories



12%
organisations are using non tradtitional performance measurement methods

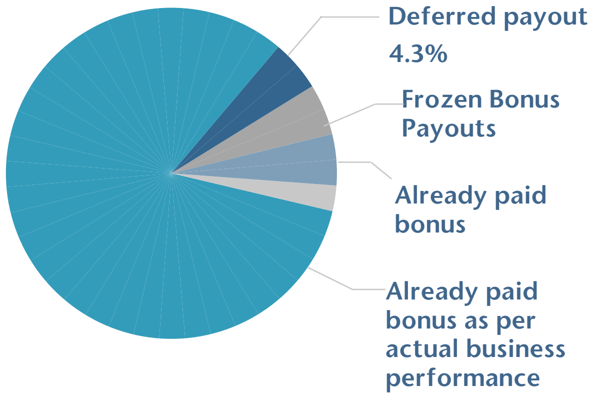
Variable Payout Trends

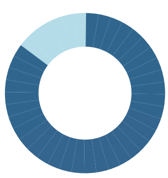
Variable payouts for the performance year 2020-2021 showed a clear impact of the pandemic on business performance. Most organizations revised their business forecasts and variable payout plans as per revenue projections as the year went on. As business performance improves and firms' power through, variable payouts for 2022 are expected to bounce back to pre-pandemic levels.

Despite a bleak scenario at the start of the pandemic as business outlooks improved at the turn of the year majority of the firms were able to give bonus payouts without deferring them further in 2021.
Having said that, the variable payout in 2021 for the performance year 2020-2021 shows a drop of 10% across levels going from 13.2% in 2020 to 11.8% in 2021.

Status of Bonus Payout

Prevalence of Bonus Payout





85% of the organizations were able to give bonus payouts without deferring

Variable Payout Trends

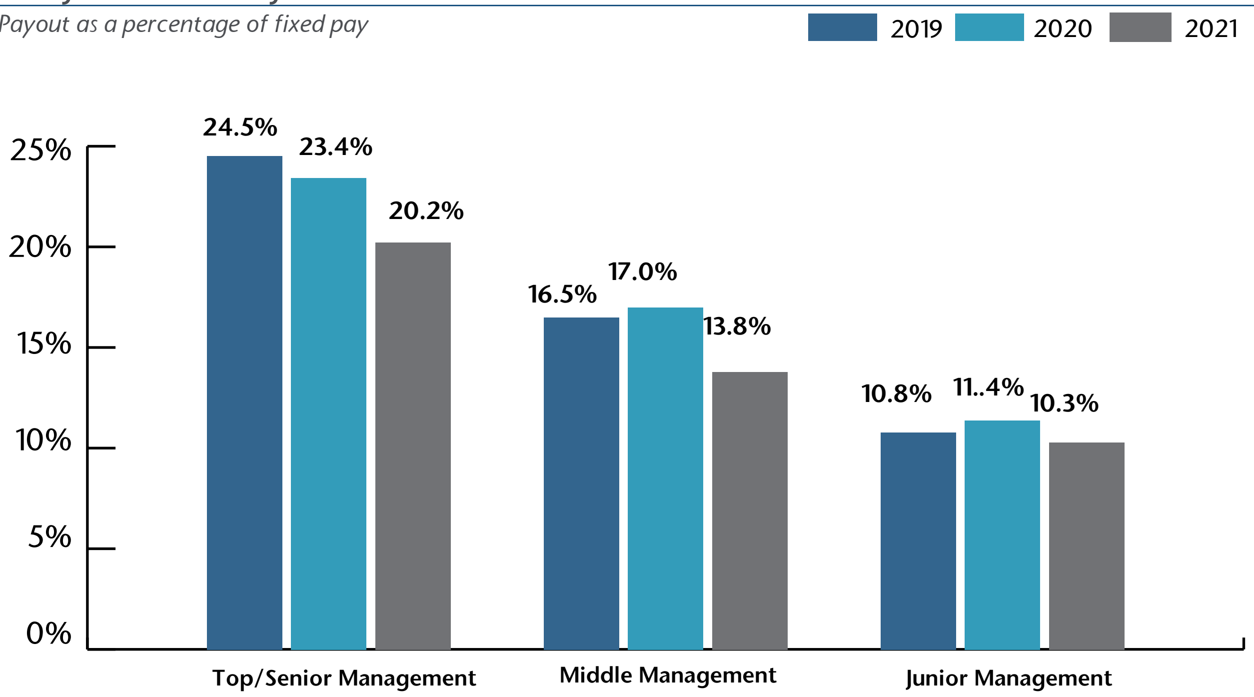
Actual Bonus Payout 2021

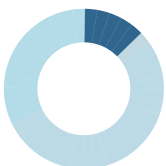
Top management saw the sharpest decline in variable bonus payout in 2021 for the performance year 2020

Linkage of variable pay plan to performance increases as one goes up the hierarchy and so does the component dependent on business performance. As a result the major impact of a pandemic hit year is visible on top management employees. Also most organisations have exercised discretion while making bonus payouts and have looked at minimizing the impact at the junior levels. On an average the actual payout was 15% below the target values for the year 2020.

Bonus Payout over the years

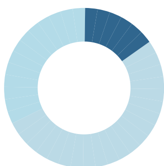
Bonus Payout as a percentage of fixed pay





11.8%

of fixed pay was the variable payout for the period



15%

below target bonus payouts for the year

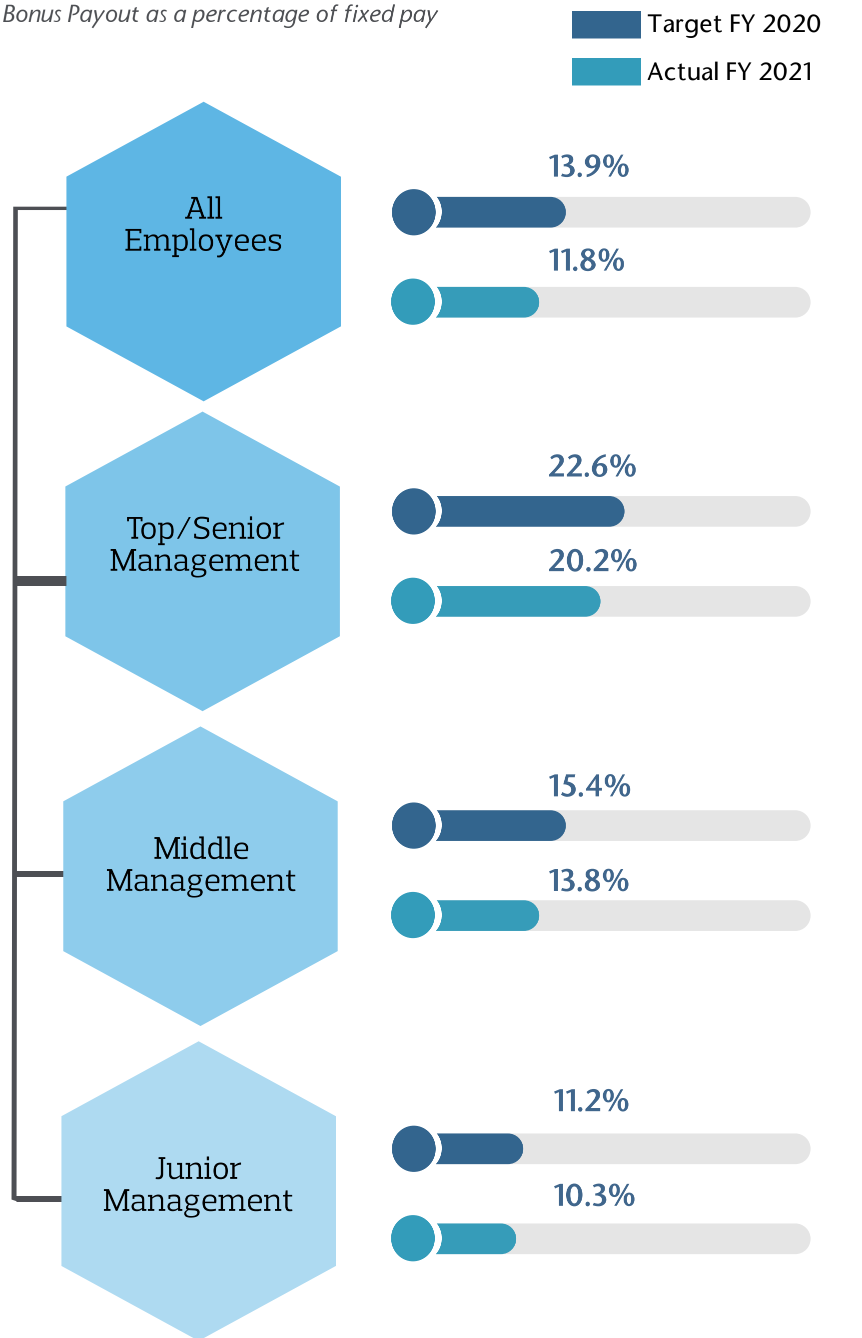
Bonus Payout by Levels

Target vs Actual Payout

In effect most organisations looked at bonus payouts as a tool to reduce people send and was one of the transactional tools they leveraged rather than resorting to mass lay-offs and job cuts.

Target vs Actual Bonus Payouts

Bonus Payout as a percentage of fixed pay



As firms look forward and with an improvement in business performance the variable payouts for 2022 are expected to be back to pre-pandemic levels.

Variable Pay Practices

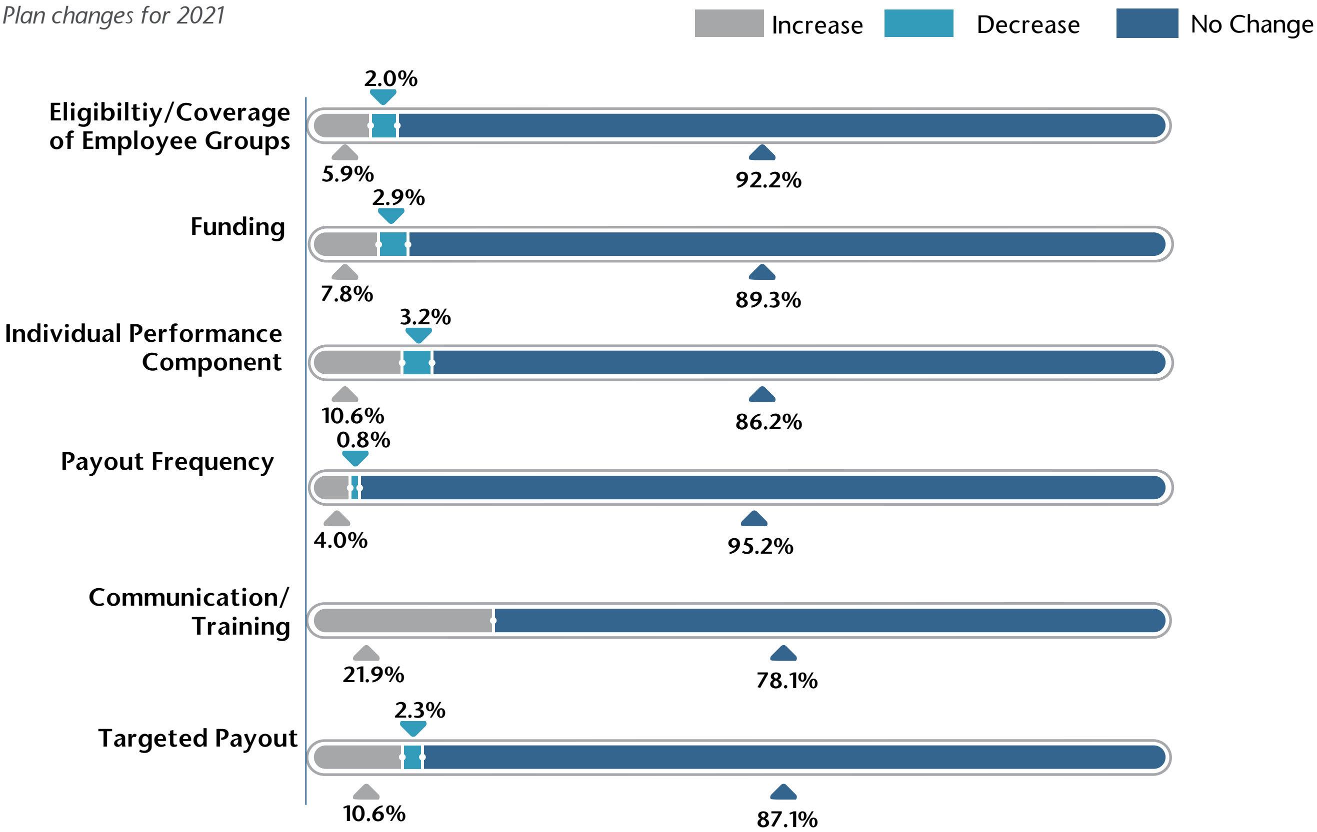
Focus on Transparency

2021 saw organizations take a mature approach acknowledging the impact of uncertainty and working in remote environment for a demographically younger workforce in India.

A key tenet of this approach was more transparency and greater communication around rewards decisions. Significantly 22% of the organizations revisited their variable pay communication philosophy and invested in manager trainings to ensure the appropriate messaging was getting cascaded down across levels.

Variable Pay Plan Practices

Plan changes for 2021



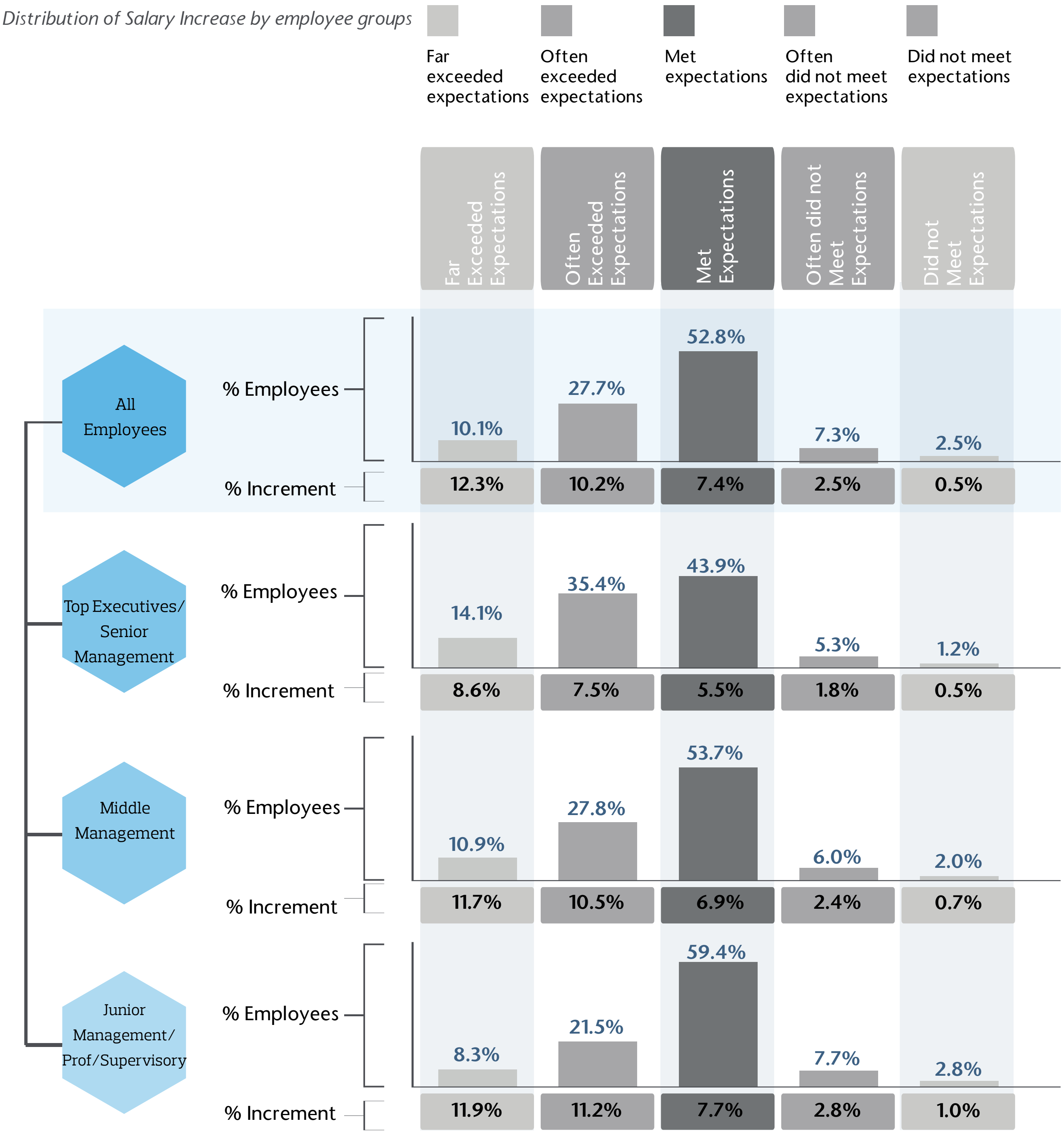
Salary Increases and Performance Ratings

Performance Ratings vis-a-vis Salary Increases 2021

High risk to reward ratio for India Inc. was never in doubt and the performance bell curve for 2021 follows a similar theme. Top rated employees stand to see salary increase budgets to the tune of 12.3% against 7.4% for employees rated as Met Expectations. We also see a very low percentage of population in the bottom two categories which is usually a sign of a high growth scenario.

Overall Salary Increase by Performance Rating

Distribution of Salary Increase by employee groups



Performance Bell Curve for 2021

Employee Distribution by Performance Ratings

Over the last few years more and more firms are moving away from a fixed rating fitment curve in order to give more flexibility to managers and to do adjustments as per actual business performance. This has lead to variation in the percentage of population being parked under various rating categories. In bad years we lower percentages of population in the top two ratings. On the other hand in a strong year we typically see a higher percentage of population in the top two performance rating categories.

In 2020 most organizations took a mature and socialistic view with a lower percentage of population rated under the bottom category to ease the impact of the pandemic. The story for 2021 changes significantly where we see organizations piggyback off improved business performance and an ongoing talent war, thus parking a higher percentage of the population in the top two categories. In 2020 33% of the population was slotted in the top two categories whereas in 2021 this number increases to 38% up by 5%.

Organizations in 2021 parked a higher percentage of the employee population in the top two rating categories specially on the back of improved business performance and a need to retain talent admist a war for talent.

Performance and Performance Pay Differential

Differential across time horizons

Far exceeded expectations | Exceeded expectations | Met expectations | Did not meet expectations

	Employee Performance Differential				Performance Pay Differential
	Far exceeded expectations	Exceeded expectations	Met expectations	Did not meet expectations	
Horizon 3 (2005-2010)	10.1%	29.4%	52.5%	8.1%	1.3x
Horizon 2 (2011-2015)	9.0%	24.7%	54.4%	11.9%	1.6x
Horizon 1 (2016-2019)	7.4%	23.5%	55.3%	13.8%	1.7x
2020	9.7%	23.3%	55.9%	11.0%	1.6x
2021 (A)	10.1%	27.7%	52.8%	9.5%	1.7x

The performance differentiation number is calculated as the ratio of salary increase for top performers to employees meeting expectations. This number increased marginally from 1.6 in 2020 to 1.7 in 2021 following the trends of previous years. The improvement in business performance also meant 2021 was a good year for top executives with highest percentage of top performers being identified at top management level while the lowest percentage being at the bottom of the pyramid.

Variable Pay Trends

Sector-Wise Variable Pay

Variable pay trends (2020 vs 2021)

Average variable payouts as a % the fixed pay decreased in 2021

Sector	2020	2021
India	13.2%	11.8%
Financial Institutions	16.8%	14.7%
Chemicals	12.9%	13.9%
Energy (Oil/Gas/Coal/Power)	11.8%	13.0%
E-commerce	14.9%	13.1%
FMCG/FMCD	14.7%	12.9%
Telecom (OEM & Services)	9.0%	11.9%
Professional Services	12.0%	11.7%
ITeS	12.3%	11.6%
Engineering/Manufacturing	11.3%	11.2%
Life Sciences	13.3%	11.1%

A sectorial view of the variable pay numbers show that the services industry with sectors such as restaurants/QSR, ecommerce, financial services and professional services amongst others, was the most deeply impacted segment with an average payout of 11.7% in 2021 a drop of 12% from 2020. The manufacturing industry did better on the back of an improved performance in sectors such as chemicals, energy and telecom (OEM and Services) with an average payout of 12.1 % a drop of 6% from 2020.

The payouts for 2021 dropped across sectors with the exception of chemicals, energy and telecom (OEM and services) sectors. The higher payout for chemicals were largely driven by a better-than-expected performance towards the end of 2020. For energy however, the script was dominated by a lot of interest and growth in the renewables sector while telecom (OEM and services) benefited from sustained effort by the government in increasing the reach and connectivity across the country.

Financial Institutions, Chemicals and Energy (Oil/Gas/Coal/Power) gave higher than expected bonus payouts in 2021

Alternatives to the Bell Curve

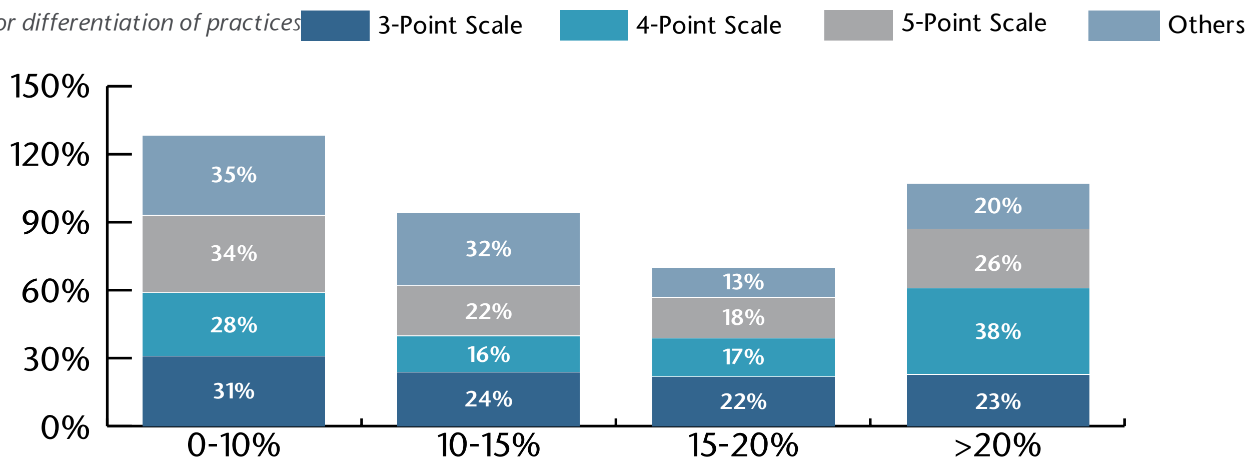
Case for Differentiated Performance Practices

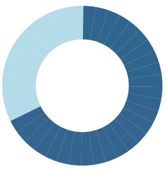
Despite the noise around differentiated performance measurement and no rating scales, bell curves and 5 point rating scales remain the preferred approach for organizations in segmenting talent. 53% organizations continue to use the 5 point rating scale with a 4 point rating scale coming in at a distant second with prevalence in 18% of the organizations followed closely by 16% of the organisations preferring a 3 point rating scale. Only 5% of the organizations have done away completely with a rating scale and are relying on managers to share objective and contextualized feedback .

Even as most organisations tend to prefer the typical rating scales to segment, asses and provide performance feedback there is a case to be made for a highly contextualized approach. A correlation drawn between rating scales and attrition shows that 67% of the organisations that follow a differentiated approach have attrition lower than 15%.

Attrition and Performance Scales

A case for differentiation of practices





67% organizations that follow a differentiated approach for performance ratings have attrition lower than 15%

Organizations with Differentiated Performance Management Practices have Lower Attrition

Some of the differentiated practices followed include

1. Engaging employees continuously by gamifying performance metrics using badges, leaderboards, points & campaigns.

2. Using 10/100/200 point rating scales that allow extensive options accounting for "in-betweens" giving a clearer view on performance.

3. Using 9 box models (Performance vs Potential)

4. Replacement of rating scales with other models such as "strength based assessment"

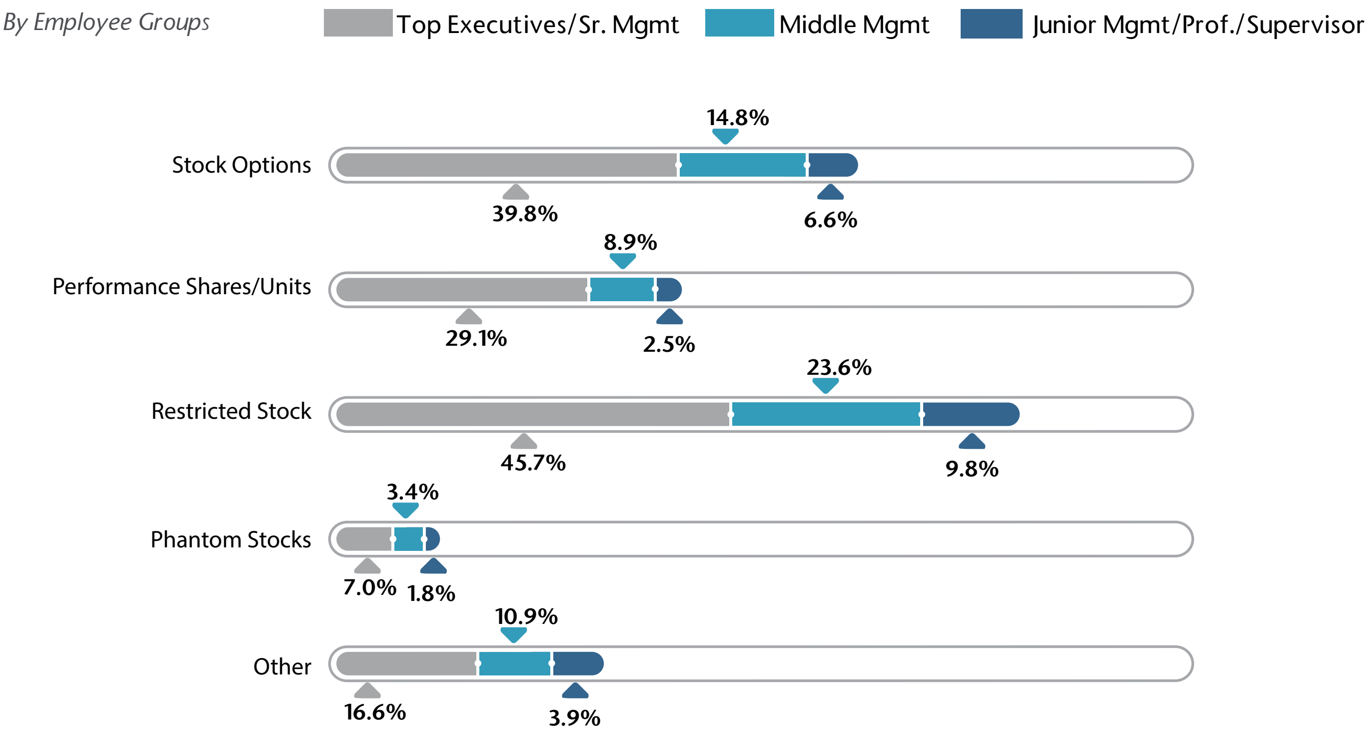
5. Only two categories – "on-track" and "off-track" or "performing" and "non-performing"

Long Term Incentive Practices

India today has a burgeoning early stage segment with start-ups mushrooming across the country. One of the key ways for these organisations to attract talent is an attractive equity participation program that promises lucrative upside albeit with a risk factor involved. At the same time most global firms also continue to extend their LTI practices to India especially when it comes to global software giants. As a results we see a fair prevalence of both instruments such as ESOPs, Performance shares and RSUs in the country. While majority of the early stage segment prefers ESOPs, equity participation plans in mature multinationals usually include RSUs and performance shares as the major component in the plan. Having said that most plans have a mix of various instruments baked into their structure.

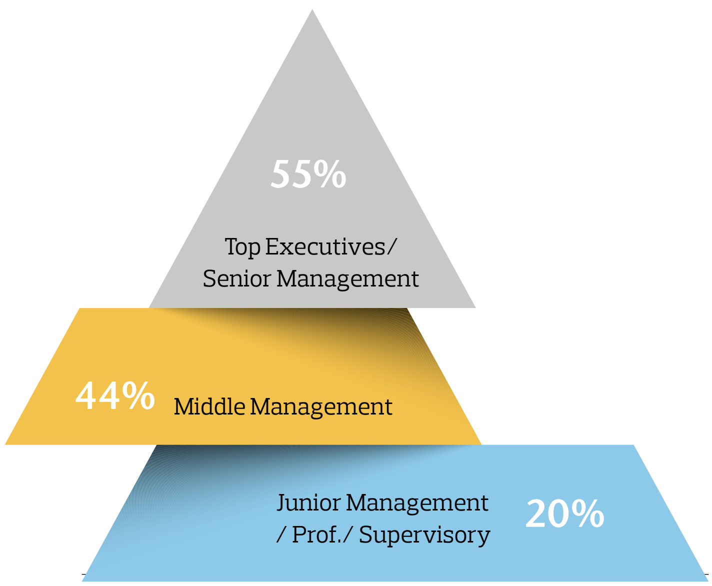
Prevalence of Long Term Incentives

By Employee Groups



LTI Earning Opportunity/Potential Gain

As a % of annual base salary



Similar to variable pay plans the amount of LTI as a percentage of fixed pay increases in ratio as you move up the hierarchy. At top management level the ratio of LTI can go as high as 55% of the total fixed pay.

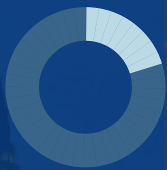
3

Attrition

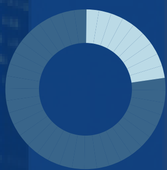
- Attrition Trends 2021
- Decadal View of Attrition
- Sector Wise Attrition Numbers
- Reasons for Attrition and Retention Measures

Attrition

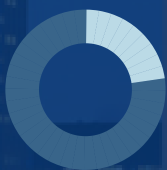
Highlights



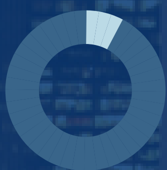
20%
attrition for
India Inc.



24.4%
highest attrition in
Hi Tech/ Information
Technology



24%
attrition in
Digital Skills



6.3%
lowest attrition in
Metals and Mining

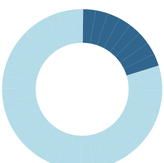
Attrition Trends 2021

2021 has been unparalleled when it comes to the talent exchange we are witnessing across sectors. The overall annualized attrition number for 2021 stands at an astounding 20% which is a record high since 2011. Simultaneously, voluntary attrition at 15.4% is at its peak since 2015. A number so high, that the industry has coined this era – "The Great Resignation". A part of this number can be attributed to stress and burnout felt in a remote working environment that is causing people to rethink their current working arrangements. However, when it comes to India, a lot of this is also due to the large pent-up demand and economic volatility attributed to the pandemic. While employees sat tight for almost 12 months before looking out for other opportunities, as the conditions improved and markets opened, attrition shot through the roof.

A sub-plot to the India story also connects to outsourcing. As countries started closing borders and placing travel and movement restrictions global supply chains started getting disrupted. This resulted in companies looking for alternatives such as India to de-risk and bridge gaps in their supply chains. Hence over the last 12 months we have seen numerous organizations setting up captives in India adding to a burgeoning demand for talent.

The market saw organizations move more front office jobs to middle and back offices for cost arbitrage and a major chunk of these jobs also landed in India creating more opportunities for potential employees.

These macro-economic events added to the



20% Attrition of 20% is the highest we have seen in a decade. A number so high the industry has even coined a term for it – "The Great Resignation"

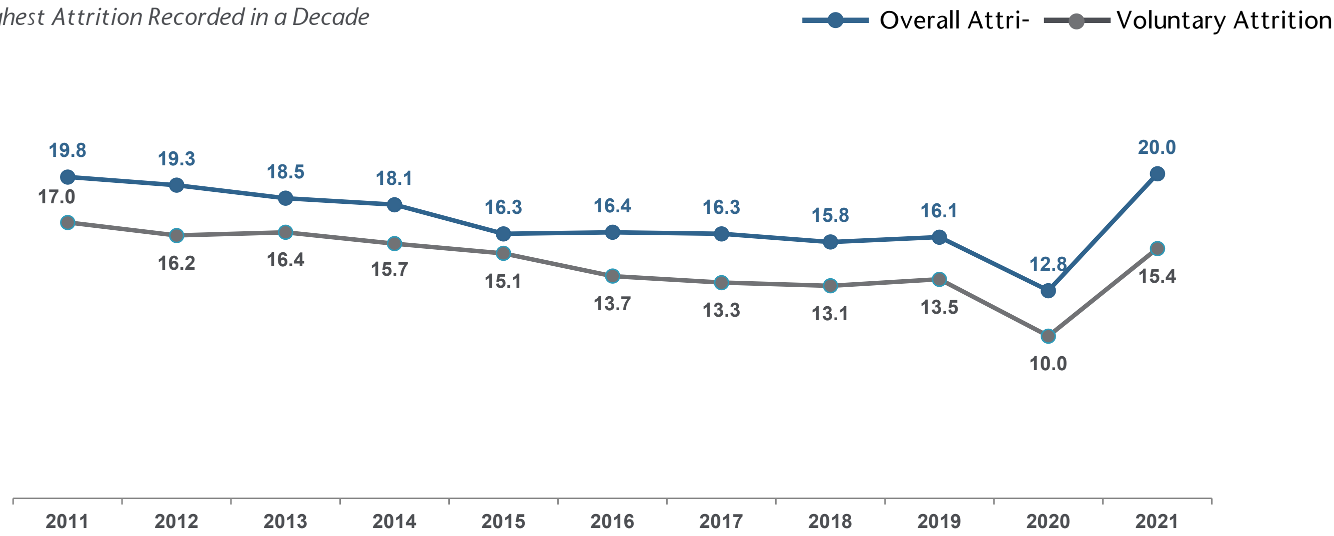
Decadal View of Attrition

Is attrition here to stay?

While some part of this can easily be predicted around growth cycles which are usually accompanied with high attrition, the sheer volume and scale of these attirition numbers has taken almost everyone by surprise.
The overall attirion for India stands at 20% but the numbers for key and digital talent are even higher at 24.1% as organizations across sectors are looking to build capabilities in the digital space. This rush for digital talent is unlikely to end anytime soon which could mean that organizations may have to live through high attrition numbers for the forseeable future.

Decadal View of Attrition

Highest Attrition Recorded in a Decade



Organizations across sectors are looking to build capabilities in the digital space thereby fueling the demand for digital talent. This has created a supplier's market leading to high attrition for organizations specially in the Technology and

Attrition

Sector Wise View

Attrition Highlights

Attrition %

	Overall	Voluntary	Involuntary
India	20.0%	15.4%	4.2%
Manufacturing	16.2%	11.4%	3.6%
Services	22.4%	18.1%	4.6%

Top 5 Sectors

Attrition %

	Overall	Voluntary	Involuntary
Hi Tech/Information Technology	24.4%	18.8%	4.6
Professional Services	20.5%	17.3%	2.0%
E-commerce	20.5%	13.6%	7.9%
Hospitality/Restaurants	20.2%	14.0%	7.5%
Financial Institutions	19.4%	14.8%	4.5%

Bottom 5 Sectors

Attrition %

	Overall	Voluntary	Involuntary
Chemicals	9.6 %	6.8%	1.9%
Aerospace	8.5%	6.3%	1.9%
Engineering/Manufacturing	8.0%	6.0%	1.9%
Cement	7.9%	5.4%	4.2%
Metals & Mining	6.3%	4.0%	2.5

A sectorial view of attrition confirms the narrative around a "War for Talent" in technology and allied industries.

Thus technology, Professional Services and Ecommerce sectors are seeing attrition numbers above the 20% mark placing them among the top 5 Sectors by attrition . A lot of the surge in demand can be explained by 3 trends –

i. India's start-up eco-system has really started to come-off age. In the last 8 months alone we have seen the rise of 8 new unicorns (4). These firms which are cash rich and need tech talent to fuel growth have been hiring very aggressively leading to a knock-on effect across the sector.
ii. The Indian IT outsourcing sector has come out relatively unscathed from the pandemic, demand pipelines are strong which high utilization. At a time when these organizations have done away with the traditional "bench" strength they are having to go into the market to buy talent to fulfill this demand in the short run.
iii. The demand for tech talent is also rising due to convergence as sector such as manufacturing, FI and others are also looking at digital channels for growth.

Apart from the technology and ecommerce sector where demand is really high due to the afore mentioned, even professional services as a sector has seen an increase in attrition. A part of this is driven by a sector that has always seen high attrition in tough working conditions a larger part of it is also driven by increasing demand for expertise in areas such as risk, cyber security and financial services among others.

On the other end of the spectrum sectors such as metals and mining make up the bottom 5, which slower recovery and external opportunities to employees resulting in lower attrition as well.

Attrition Drivers and Retention Measures

Top 4 Reasons

Key Attrition Drivers

2019 rank | 2021 rank

Top reasons for voluntary attrition pre COVID - 19 & during COVID - 19

	2019	2021
External Inequity of Compensation	2	1
Limited Growth Opportunities	1	2
Role Stagnation	4	3
Internal Inequity of Compensation	7	4

Key Retention Measures

2019 rank | 2021 rank

Top retention measures pre COVID - 19 & during COVID - 19

	2019	2021
Recognition Awards (Monetary/Non-Monetary)	3	1
Work Life Balance	4	2
Fair & Equitable Treatment in Rewards for all Employees	5	3
Timely & Meaningful Feedback from Manager	8	4

Reasons for Attrition and Retention Measures

India Inc is going through a growth surge "External Inequity of Compensation" has overtaken "Lack of Growth Opportunities" as the number one reason for attrition. While "Role Stagnation" continues to be in the Top 4, "Internal Inequity of Compensation" is the new entrant in the list as the fourth most prevalent reason for voluntary attrition. While external inequity is explained by a suppliers market where employees can choose the highest bidder, "Internal Inequity" could be directly attributable to some actions organizations have been taking to retain and attract talent. With organizations having limited budgets they have been only able to cover part of the organizations under one-time payout programs and off-cycle corrections. We have also seen organizations doing compensation based fitment at the time of hiring all of which is leading to resentment in certain sections of the incumbent employee workforce working as a key driver towards pushing people out.

As a direct response to these attrition drivers organizations that have a highly competitive recognition program and have done a better job around internal inequity have seen better results in retaining employees. Hence it is no surprise that the number one reason for retention is "Recognition Awards (Monetary/ Non-Monetary)" and "Fair & Equitable Treatment in Rewards for all Employees" is number three in the list. Interestingly where some employees have been quoting stress and long working hours as a reason for looking out "work life balance" has moved up the list as the second most important tool for retaining employees. This has also meant organizations have adopted unique practices like no meetings Friday, 4 day weeks and flexi working timing. A new entrant to the list in 2021 is also "Timely & Meaningful Feedback from Manager", which is again attributable to a remote working model adopted by a majority of the firms. As firms struggle to build manager capability to coach, guide and support their subordinates in a stressful time requiring managers to show empathy on top of technical and functional capability, organizations which have invested in this area in committed fashion are seeing much better results on retention.



4

Key Talent

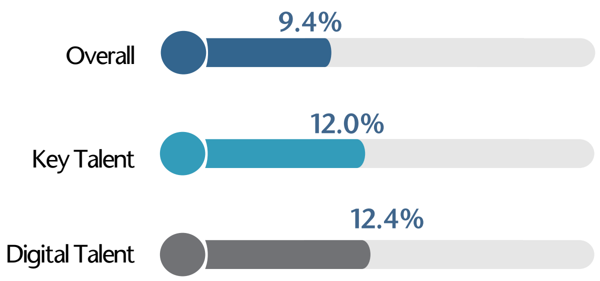
- Overview of Key Talent Practices
- Salary Incease Trends
- Retention Drivers

Key Talent

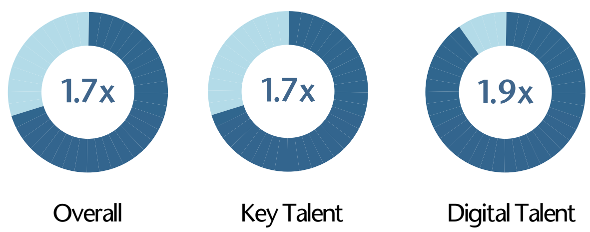
The demand for Digital skills is expected to continue to increase into the future. This trend is clearly visible in the salary increase projections for Digital skills. Organizations are also redefining their categorization of key skills with a greater percentage of their key talent will comprise of digitally skilled employees.

Traditional enterprises built multi-billion-dollar businesses over a long period of time, but in the new age "digital players" are creating highly valued companies faster and fundamentally disrupting traditional industries.
Their secret for success can be attributed to their ability to think very differently – digitally – combined with a new palette of talents.
As organizations invest thought and resources to create a unique value proposition for there key talent groups, we also see a greater appetite for performance differentiation when it comes to Digital skills. The performance multiplier for Digital skills in 2021 was 1.9x much higher than the differentiation in Key talent which stood at 1.7x. Having said that the top 4 reasons for attrition for both Key Skills and Digital Skills remain the same. Both segments calling out higher compensation as the number one reason for moving from one organization to another in a very employee friendly market. The remaining factors being around growth opportunities, under utilization of skills and the nature of work. Unlike India inc. given the investment organizations are making in Key and Digital Talent internal inequity of compensation is not

Salary Increase 2022 P



Pay for Performance Differentiator (2021)



Salary Increase Trends

Digital and Key Talent

Digital Skills Driving Budgets for 2021

Represented as

Sector	2021 Overall Actuals	2021 Key Talent Actuals	2021 Digital Actuals
India	8.8%	11.2%	12.5%
Manufacturing	8.3%	10.5%	10.9%
Services	9.1%	11.7%	13.1%
E-Commerce	10.1%	15.5%	16.2%
Hi Tech/Information Technology	10.5%	13.3%	14.5%
Financial Institutions	7.7%	9.7%	12.2%
FMCG/FMCD	8.5%	12.4%	13.5%
Life Sciences	8.8%	11.4%	12.6%
IT Enables Services	9.2%	10.6%	11.9%
Telecom (OEM & Services)	7.6%	11.3%	11.8%
Professional Services	10.2%	13.7%	11.0%
Engineering/Manufacturing	8.4%	11.9%	10.3%
Automotive/Vehicle Manufacturing	8.0%	10.3%	9.7%

As India Inc grapples with getting businesses back to pre-covid levels, retaining key talent has becoming of paramount importance. In 2021 with challenging work environments, increasing stress and a market burgeoning with opportunities the task of retaining key talent has become even harder. On an average while India Inc gave out salary increases to the tune of 8.8% the average salary increase for key talent was 11.2% with a differentiation factor of 1.3x. The salary increases given to digital talent was even higher at 12.5% contributing to a factor of 1.4x.

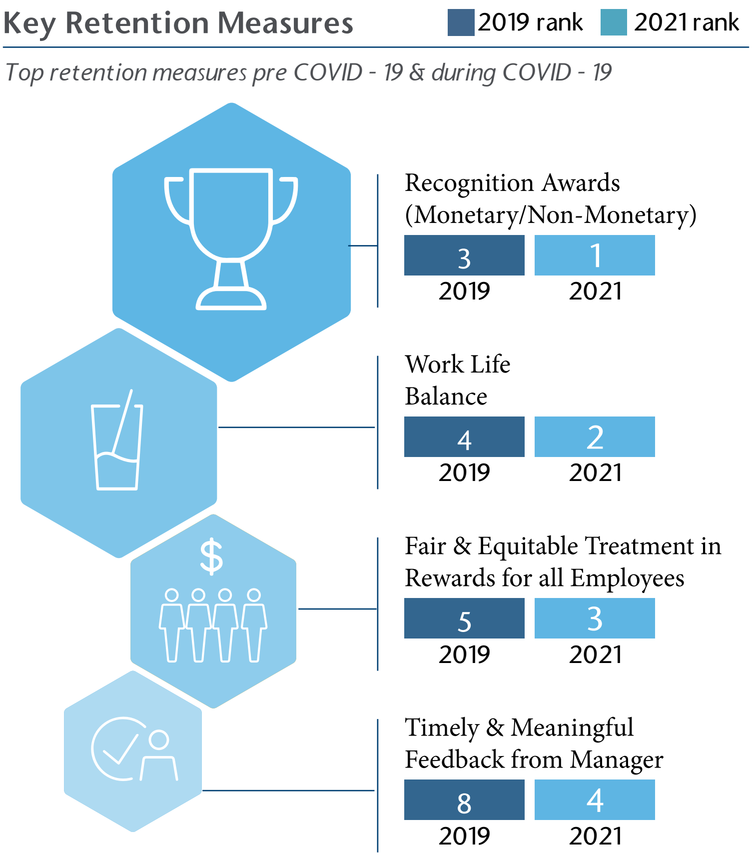
A sectoral view shows that for sectors such as Ecommerce, Technology, Financial Services and FMCG where the Digital skills are most in demand the differential for Digital skills is even higher going up to 1.5x or 1.6x. This demand for technology talent is not expected to subside looking at CIO scorecards across industries as organizations look at transformation from legacy and on-premise to cloud based solutions especially as penetration increases in sectors such as Engineering/Manufacturing and Automotive/Vehicle manufacturing.

While India Inc gave out salary increases to the tune of 8.8% the average salary increase for key talent was 11.2%. The salary increases given to digital talent was even higher at 12.5%

Look beyond the obvious to retain key talent

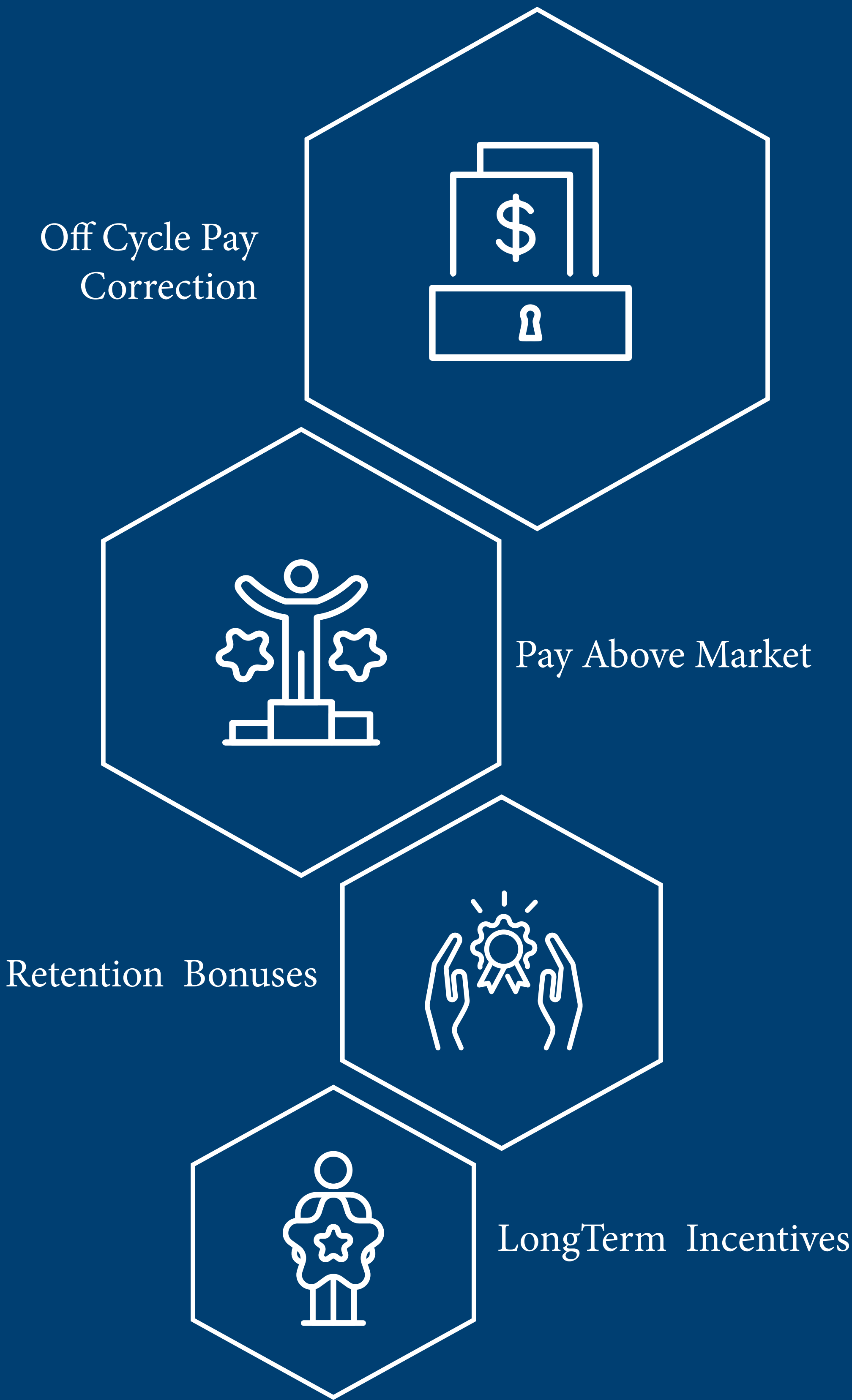
Key Retention Measures

Top retention measures pre COVID - 19 & during COVID - 19



The pandemic has accelerated the digital journey for organizations. This has led to an unprecedented war for digital talent in the short term and is driving up salary increase budgets and attrition numbers across sectors. Businesses will have to redefine their talent strategies to keep pace with the war for talent and as rewards actions alone will not be sustainable in the long run.

Compensation and Benefits Policies to Retain Talent



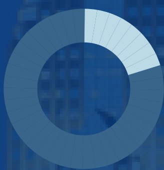
5

Winds of Change

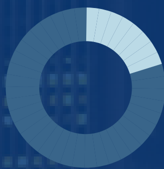
- Virtual Working Environment
- Diversity and Inclusion

Future of Work

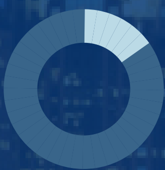
Priority Areas



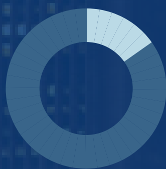
19%
organizations are re-designing employee well being programs



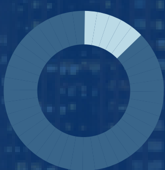
18%
organizations re-evaluating remote working models



14%
organizations are re-looking rewards and benefits policies



14%
organizations are reassessing manager capability building



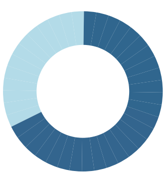
13%
organizations are re-vamping their learning and development programs

Virtual Working Environment

COVID-19 has highlighted the reality that the macro environment is changing at an extremely rapid pace. It is exposing the gap between the organizations that are proactively adapting to this new environment and organizations that are grappling with this change. As organizations reimagine what the future of work will look like, the pandemic has ensured a shift in focus from technology play and talent management to a people centric philosophy.

One of the key strands of the Future of Work will be the extent to which organizations can work remotely. Organizations thus need to define work force models that are more resilient while simultaneously giving them the opportunity to access broader talent markets and drive cost arbitrage. As organizations look at remote working, the first question they need to answer is, which jobs will move to remote working easier than others while continuing to be low risk and high productivity.

63% organizations feel that roles where an individual will have end to end responsibility will be the easiest to move to the remote working model. Another 60% believe that jobs requiring constant monitoring and communication might face more obstacles during this paradigm shift. Based on these parameters, jobs associated with IT and Coding, where a task can be broken down to give an individual an end-to-end ownership is the easiest to move to a remote model. This is followed by HR, Strategy and Planning, Finance and Management/ Leadership roles. On the other end of the spectrum, roles within manufacturing, engineering and sales which intuitively require human interventions or are a part of a supply chain will face some difficulty. Today 68% of India's total workforce is working remotely. The pandemic has shown us that most jobs can be operated remotely. The extent of adoption, however, will be defined by a broader business context.

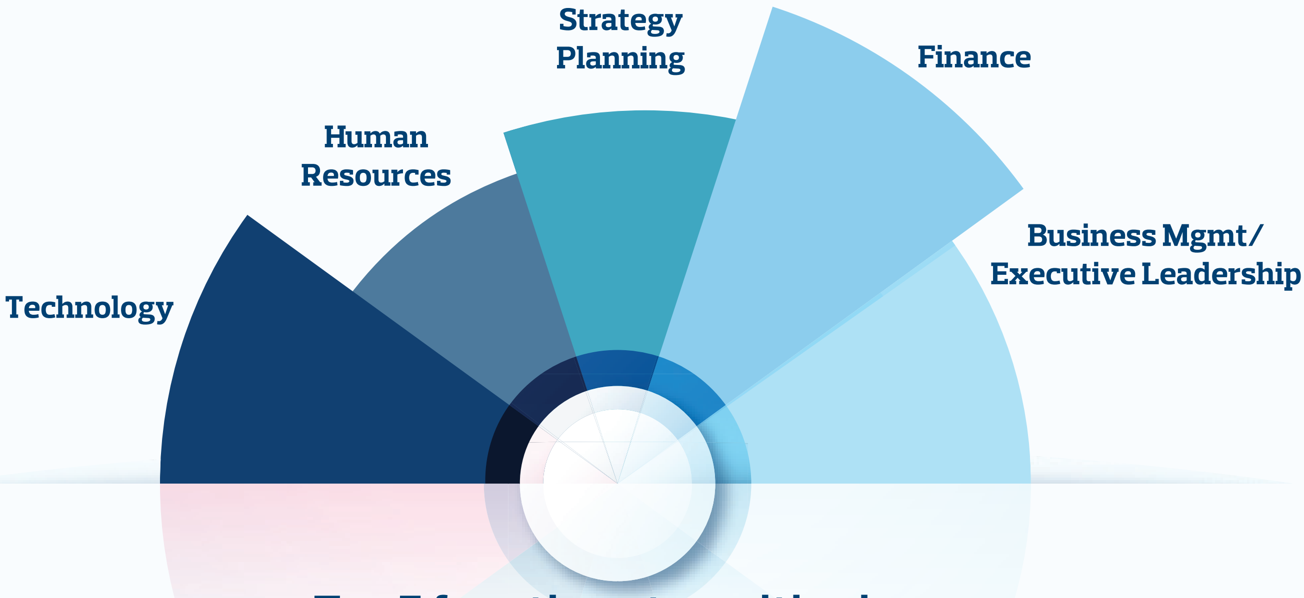


68%

Today 68% of India's total workforce is working remotely. The pandemic has shown that most jobs can be operated remotely the extent of adoption though will be defined by a broader business context.

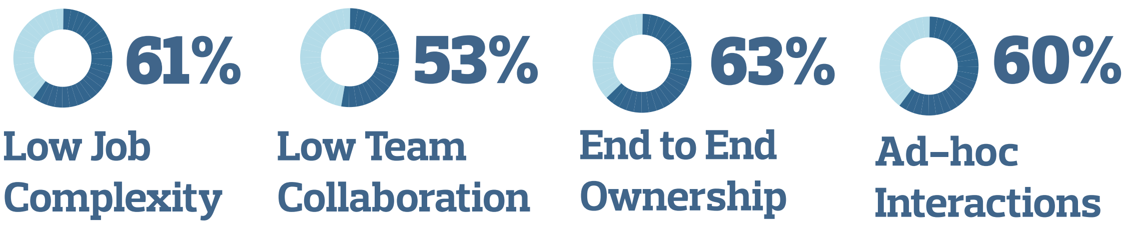
Moving Jobs to Virtual Environments

As organizations look at remote working, the first question they need to answer is which jobs will move to remote working easier than others while continuing to be low on risk and high on productivity.



Top 5 functions transitioning to hybrid/virtual models

Decision Criteria to move Jobs to Virtual Environments



Adoption of Virtual Working Environments

Sector Wise Adoption

Virtual Working Models

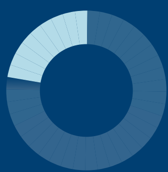
Represented as

Sector	Work from Home	Hybrid Model	Work from Office
India	67.9%	19.7%	35.4%
Manufacturing	51.5%	22.6%	47.9%
Services	77.2%	17.9%	34.9%
Hi Tech/Information Technology	92.8%	13.4%	10.4%
Telecom (OEM & Services)	88.8%	28.4%	15.4%
Ecommerce	92.2%	5.0%	7.5%
Professional Services	88.0%	16.1%	9.4%
IT Enabled Services	85.8%	17.3%	18.4%
Retail (including Wholesale & Distribution)	37.9%	12.6%	65.0%
Automotive/ Vehicle Manufacturing	41.5%	3.3%	58.2%
FMCG/FMCD	49.3%	21.6%	43.4%
Financial Institutions	51.3%	24.3%	40.2%
Engineering/ Manufacturing	52.5%	25.1%	51.0%

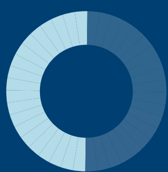
A sectoral view shows that sectors that having a lower percentage of client/customer facing jobs or those requiring less physical intervention have seen a higher percentage of the workforce working from home. Almost 90% of the workforce in these sectors continue to work from home. In-fact 77% of all employees in the services sector are working in a virtual environment.

On the other hand, only 50% of the workforce in the manufacturing sector is working virtually with a further 23% employees working in a hybrid model.

The pandemic has encouraged organizations with a high degree of virtual workforce to look at alternate talent models. Technology organizations have revisited their hiring and staffing policies to on-board people in permanent virtual roles. They are looking at ways in which they can gain access to larger talent market in a highly competitive work environment to increase supply. Not to be left behind sectors such as Financial Services, ITeS, Ecommerce are exploring this model.



77% Employees in the services sector are working in a virtual environment

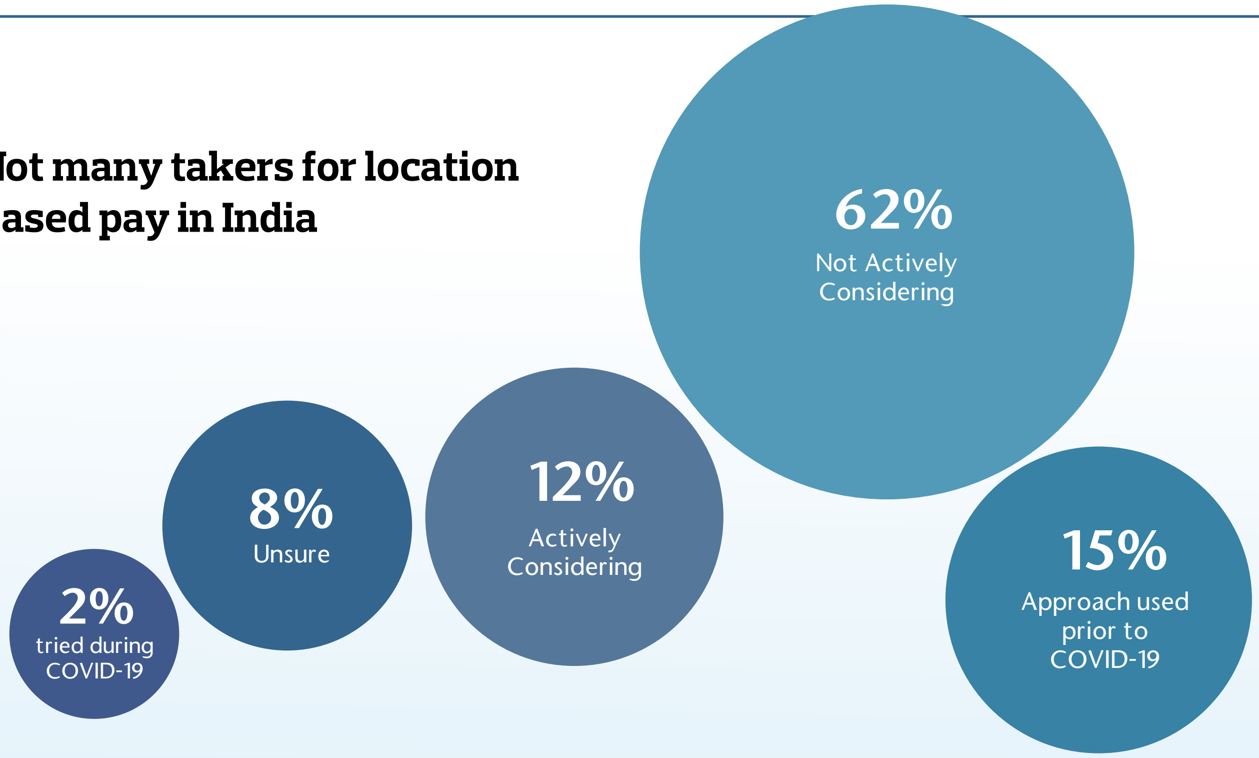


50% Workforce in the manufacturing sector is working virtually

Location Based Pay in Remote Working Models

A lot of interest has been generated around adopting location-based pay in India similar to models being deployed in the west, especially given that 68% of the workforce is working in virtual environments. Further a lot of the employees are working out of their ancestral hometown locations which may have a lower cost of living. Proponents of the theory talk about wages being reflective of the cost of living in a city for an employee and hence suggest the adoption of premiums/discounts to be employed to an employees salary depending on the location. Having said that only 12% organizations are actively considering, while a 17% had deployed it prior to COVID-19. Of the 17% that had this in place prior to the pandemic did not deploy this model for a remote working model and had more to do with the commoditized nature of their skill requirements that were readily available in a particularly low-cost location.

Not many takers for location based pay in India



For the 12% organizations that are considering to have location-based skill pays certain factors may play out as deterrent.

In countries where the model has been deployed the tax laws differ from one region to another so while actual salary differs the savings do not get impacted but the same is not applicable to India and hence actual employ savings will reduce.

While a particular firm may choose to adopt the same unless the market at large moves to the same model or a strong enough employer brand/EVP the organization may end up being at a disadvantage in their ability to protect and retain talent against other organizations that do not apply discounts/premiums based on locations.

Administratively managing and tracking employee locations and frequent change in working model would lead to an additional overhead which may eat into any perceived benefits.

While for certain roles organizations can explore a location-based pay, in the long run organizations do expect a large portion of the employee work force to return to office, moreover there does not seem to be a long term advantage in deploying a location based pay strategy and hence despite the current scenario only a few organizations are actively thinking about it.

Benefits in Light of COVID-19 and Remote Working Models

COVID-19 KEY MEASURES

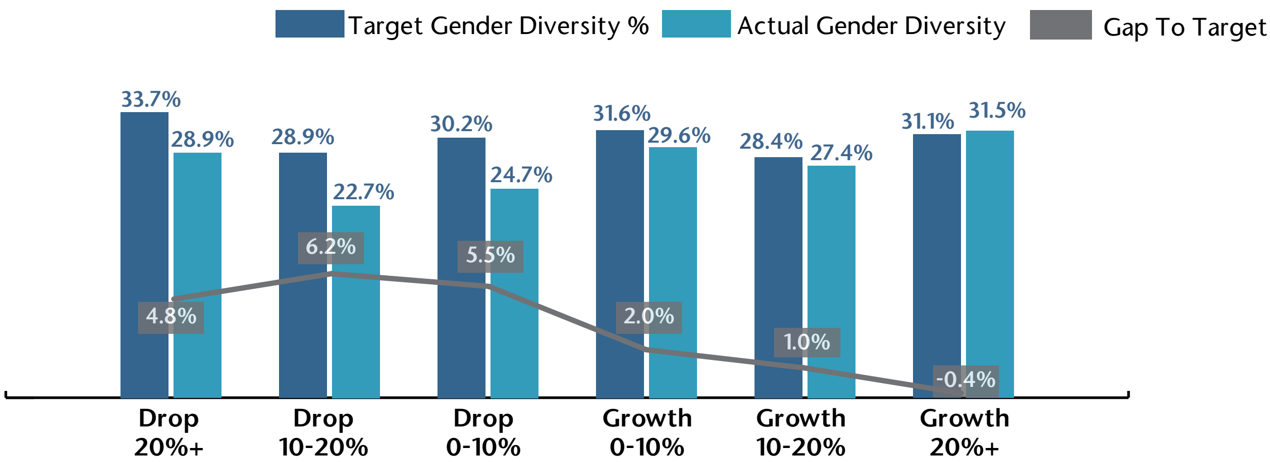
1. Inclusion of COVID-19 in insurance for self and dependents
2. Have introduced a financial assistance program during COVID-19
3. Provided one time allowance as a result of COVID-19
4. Additional sick leaves/ bereavement leaves
5. Introduced wellness programs like stress mgmt. and counselling

The Case for Gender Diversity

Meeting Gender Diversity Targets Could be Critical for Growth

For long, employees have pondered over the importance of gender diversity and the extent to which organizations should strive to achieve the same. We looked at how the current gender diversity ratios stacked up to targets set by firms across sectors. When these were correlated with their corresponding business performance in 2021, a clear positive trend emerged. Our research suggests that organizations which meet or are close to meeting their diversity targets have better business performance than those that have a higher gap to target.

Gender Diversity Target Vs Achievement and Growth

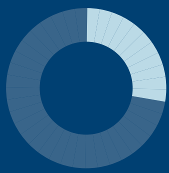


On an average, the gap to target was less than 1% for organizations that show a growth in FY2021 as compared to a 5.5% gap for those that show a decline in business performance over the same period while having similar diversity targets.

Across sectors, the India Inc. diversity number stands at 26.8 % achievement against a target of 29.2 clearly indicating that a gender diversity ratio of 25% is no longer the benchmark. While the Services sector actuals showed a higher overall gap to target, it did have a marginally better diversity ratio than the manufacturing segment with an actual ratio of 26.9% against a 26.5% in the manufacturing sector.

The adoption of remote working models have helped create a more inclusive workplace allowing individuals having personal constraints with an opportunity to work in a formal corporate set-up.

The adoption of remote working models have helped create a more inclusive workplace giving individuals with constraints to work around their personal schedules while having the opportunity to work in a formal corporate set-up.



26.8%
Diversity ratio across sectors

Across sectors the India Inc. diversity number stands at 26.8 % achievement against a target of 29.2% clearly indicating that a gender diversity ratio of 25% is no longer the benchmark.


6

Return To Work

- Approach and Overview
- Sector Wise View of Current Model
- Preparation for the Third Wave

Empower Results®

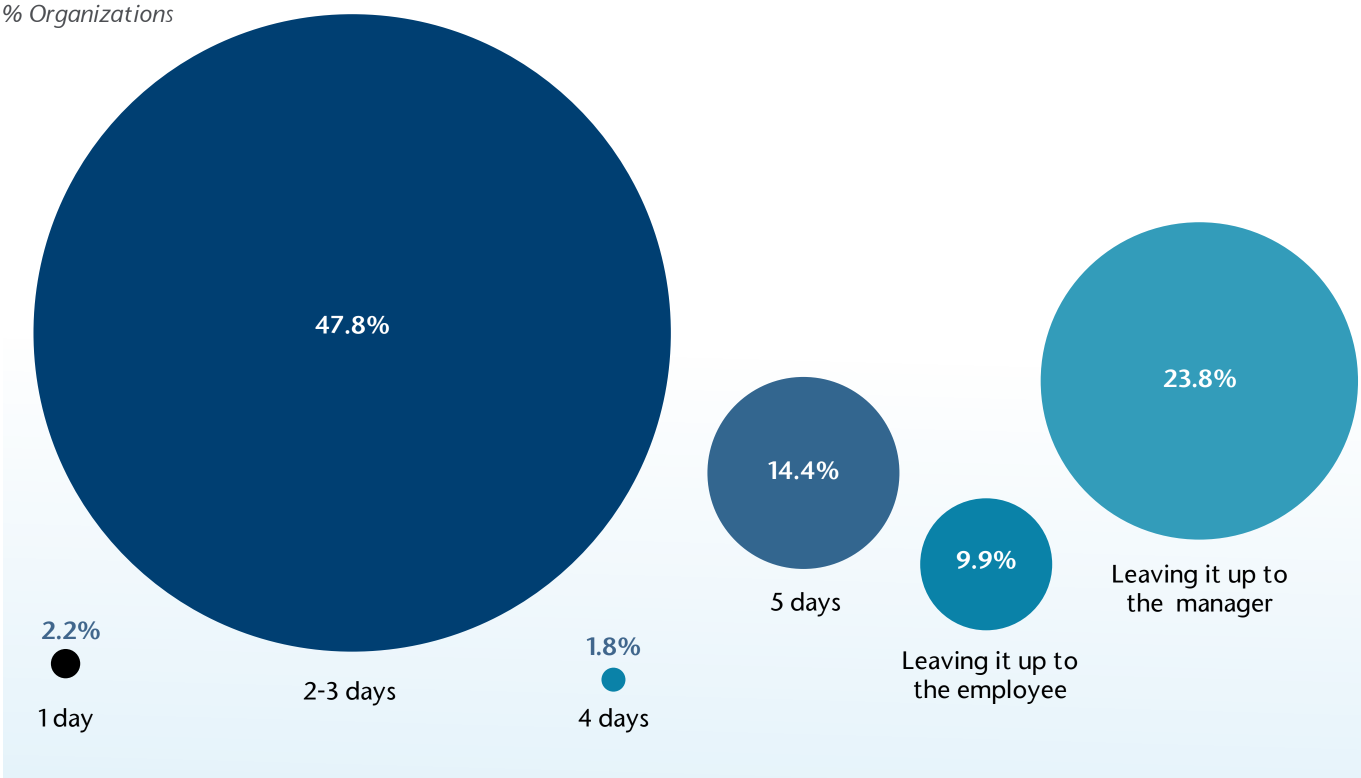
Return to Work

As organizations plan to reopen offices, key considerations for them to arrive at dates and timelines will revolve around COVID-19 statistics and projections shared by the government and various health advisory bodies; percentage of fully vaccinated employees; and their preference to return to work.

Organizations that are planning to open offices will also in most cases be doing so in a limited capacity. 50% of the organizations say that employees will be coming in to office for less than 3 days a week while 24% of the organizations will leave this decision up to the manager and the employee.

Number of days a week employees are expected to be in office

% Organizations



The Approach

At this point organizations are also ensuring that they are prepared for all scenarios which will also include any actions to mitigate impact of a potential third wave. Some of these actions include conducting vaccination drives with tie-ups with pharmacy firms for their employees. Ensuring all arrangements are in place in case of a need for a prolonged virtual work environment while also investing in collaboration and productivity tools.

The immediate future at this point is one where most organizations will be adopting a hybrid approach and doing some amount of wait and watch before making definitive decisions around return to work. But in any policy design or approach formulation central to the process will be employee comfort, flexibility and discretion.

Return to Work

Sector Wise Break-Up

Return to Work

% Organizations

Sector	% Firms with >50% employees returning to work	% Firms unsure
India	10.5%	11.2%
Financial Institutions	60.4%	15.5%
Engineering/Manufacturing	54.2%	10.4%
Automotive/Vehicle Manufacturing	47.4%	21.0%
Hi Tech/Information Technology	54.8%	21.9%
ITeS	49.6%	25.56%
FMCG/FMCD	44.8%	13.79%
Lifesciences/Pharmaceuticals	37.7%	15.56%
Engineering Services	47.8%	13.04%
Retail (incl. Wholesale & Distribution)	66.7%	13.3%
Chemicals	50.0%	25%

During the last 12 -18 months most firms have been able to adopt remote working models effectively with more than 50% of India Inc today operating remotely. The initial inhibitions around productivity in remote working have been put to rest while aspects around employee wellbeing, cultural integration, innovation and access are now center stage. Organizations are also more conscious than ever of the merits of in person interaction in strengthening employer-employee bonds. At the same time the threat of a third wave is still looming large and organizations are being cautious in opening offices too soon given the hard impact of the second wave across the board. Across the sectors given the nature of operations more than 50% of Financial Institutions and Engineering/ Manufacturing sectors expect most of their workforce back in office.

On the other end of the spectrum more than 50% of IT/ITeS sector continues to believe most of their employees will continue to work from home for now. While there is a wide variation in how and when employees will return to office, at an India Inc level firms are split on this topic 41% of the firms believe that majority of their workforce will return to office, 20% are unsure while a 39% expect majority of the employees to continue to work from home for now.

More than 50% of Financial Institutions and Engineering/ Manufacturing sector organizations expect most of their workforce back in office.

Preparing for Third Wave

Top 5 Measures

1. Focus on aggressive vaccination drives
2. Re-evaluate plans around return to work
3. Relook talent management policies to facilitate prolonged working in a virtual environment
4. Assess the likely business scenarios and potential impact on rewards budgets
5. Invest in collaboration and productivity tools

Conclusion

Way Forward

A majority of our analysis in the report indicate that India Inc. is on its way to recovery and broadly things are looking up. With a hockey-stick-like upswing in 2021, India projects an even higher salary increase in 2022. Sectors such as Hi-Tech, Information Technology, E-Commerce and Professional Services have projected an increase greater than 10%, helping drive up these numbers. A lot of this is also attributed the war for digital talent with their salary increase projections being even higher at an average of 12.4% for 2022.

From an employer perspective despite a strong response to the challenges presented by COVID-19 there seems to be no room for complacency or slow down. There are many uncertainties that are still abound, right from a potential third wave, to a raging war for talent, disruptions by newer and nimble models to dynamic geo-political posturing.

As firms plan and strategize their way forward their talent strategies will need to solve for potential people risks around conduct, culture, well being and a conducive environment. At the same time with rising payrolls costs firms will need to optimize spend by exploring alternate models such as Gig Workers, Contractors, Near Shore/Off-Shore. Finally a large part of their success would boil down to Workforce Agility around job architectures, careers , mindset, etc. Every crisis also comes with an opportunity but leaders will have to be bold and seize the moment.

Empower Results®

Call to Action

How is my sector coming out of the pandemic and are my increments in line with the market?

How well am I prepared for the workplace of the future and have I set the right priorities?

What is my potential exposure to the proposed changes under the code of wages?

Upcoming Surveys

AON Campus Survey 2022
Aon's 2020 campus update report for strategizing the next move to nurture talent in your organisation

AON Hi-Tech Radford Survey 2021-22
How Hi-Tech industry exhibits a culture of dynamism whch is helping businesses combat an competitive ecosystem.

AON Executive Compensation Survey 2021-22
Keys to managing COVID-19

Scaling the digitally ready workforce
Aon's 2020 digital readiness report

The rising resilient
How a culture of resilience is helping businesses combat an uncertain world

Aon's global COVID 19 pulse surveys
for HR professionals:
First global COVID-19 pulse survey March 2020
Second global COVID-19 pulse survey April 2020
Third global COVID-19 pulse survey May 2020
Fourth global COVID-19 pulse survey June 2020
Fifth global COVID-19 pulse survey for August 2020

Contact

To learn more about Aon's Human Capital Solutions, visit us at:
humancapital.aon.com

Or contact us at:
humancapital.aon.com/contact-us

About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

About Human Capital Solutions

Aon's Human Capital business provides leaders with a powerful mix of data, analytics and advice to help them make better workforce decisions. Our team, spanning 2,000 colleagues in more than 30 countries, includes the firm's rewards, talent assessment and performance & analytics practices.

C1277US 10.20-PW

AON
Empower Results®